

THINK INDYMAC.

IndyMac Bancorp., Inc. 2003 Annual Report

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# IN DE INDYMAC

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What came out of our first decade as an active mortgage lending company?

An appetite for the business, the flexibility to adapt to changing environments and the ability to continue our long-term vision.

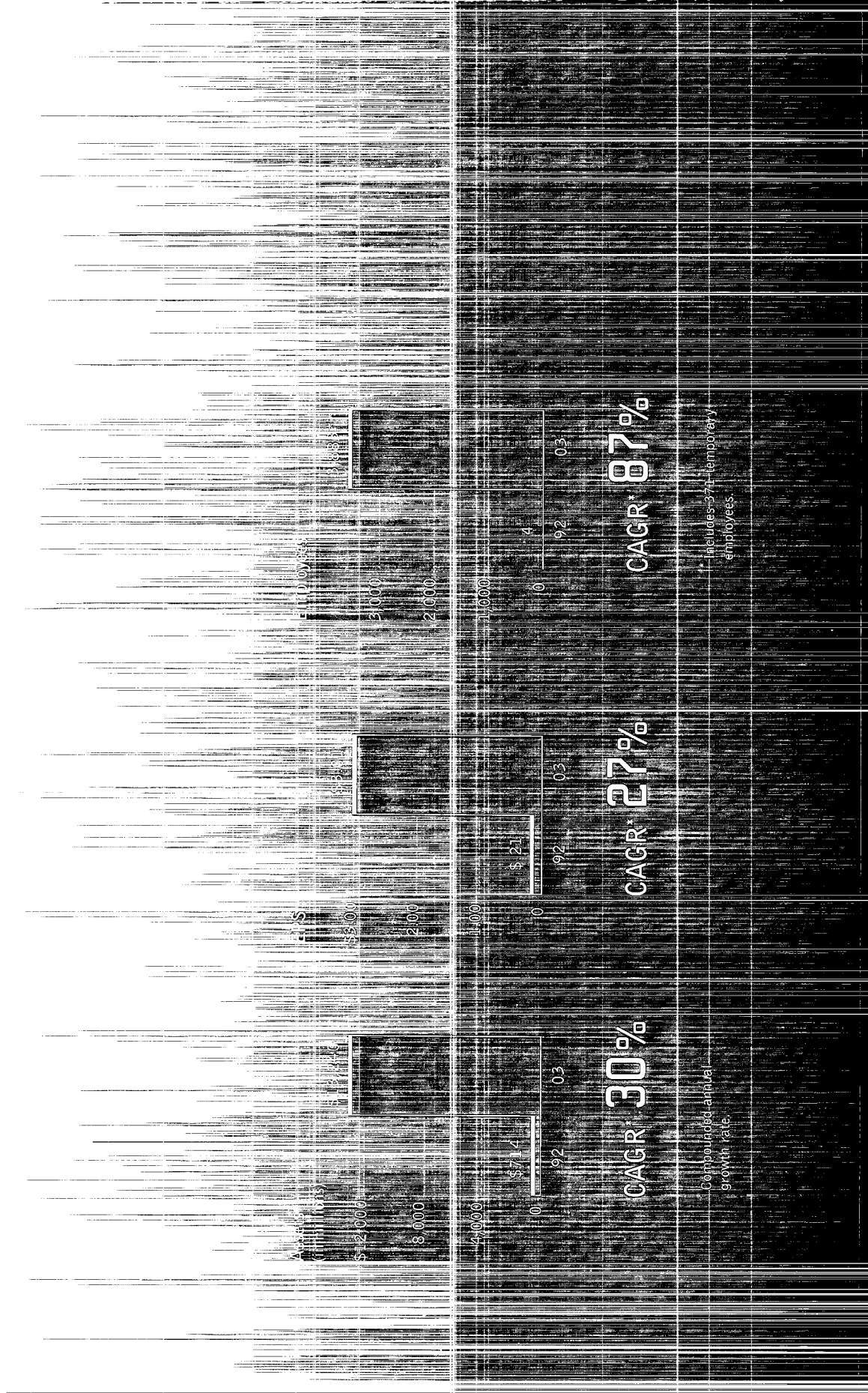
INDYMAC



THINK BEYOND.







Compounded annual growth rate.

\* Includes 371 temporary employees.



SEVEN MORE  
THAN A DECADE





# IT'S BEEN AN EVOLUTION.

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**2003**

14th largest thrift

19th largest mortgage lender

From passive mortgage REIT to  
hybrid thrift/mortgage banker

- > 14th largest thrift nationwide
- > 19th largest mortgage lender
- > Award winning technology
- > Diverse menu of mortgage products





WE'RE DOING MORE  
THAN ADVANCING  
INDUSTRY STANDARDS.



# WE'RE CREATING OPPORTUNITIES FOR GROWTH THROUGH INNOVATION.

**2003**

130,000 single-family  
residences financed

206,000 mortgage loans serviced

IndyMac provided financing for 130,000 single-family residences in 2003 alone and at year end serviced mortgage loans for more than 206,000 homeowners nationwide. How did we achieve these numbers? By leveraging our state-of-the-art technology to: 1) develop long-term relationships with mortgage and real estate professionals across the nation and, 2) offer diverse mortgage products directly to consumers.



WE'RE DOING MORE THAN OPENING  
DOORS TO HOME OWNERSHIP





# WE'RE EVOLVING THE LANDSCAPE OF THE MORTGAGE INDUSTRY.

For over a decade under the leadership of  
Chairman and CEO, Michael W. Perry, IndyMac  
has automated and simplified the mortgage process  
for consumers across the nation, while providing  
our shareholders a solid return.

1 2 3 4 5 6 7 8 9 10 11





THINK TODAY.  
THINK TOMORROW.  
THINK INDYMA.

the future through an exclusive and disciplined focus on mortgage, home equity, construction, and lot and land development financing, all centered around the home, we will out-execute our peers and become the preeminent provider of such products in the USA. We have established a specific goal to become the eighth largest single-family mortgage lender with EPS of \$8.00 by 2008.



# THINK RESULTS.

## Year in Review

- > **RECORD REVENUES** of \$708 million, up 23% over 2002
- > **RECORD EARNINGS** of \$171 million, up 19% over 2002
- > **RECORD EPS** of \$3.01, up 25% over 2002
- > Return on average equity of 18.3%, up from 16.6% in 2002
- > Reestablished dividend payments first quarter 2003
  - Paid a total of \$0.55 per share in 2003
  - First quarter 2004 dividend of \$0.25 reflects 150% year-over-year increase
  - Current yield of approximately 3%
- > **RECORD TOTAL ASSETS** of \$13.2 billion, up 38% compared with assets at December 31, 2002
- > **RECORD LOAN PRODUCTION** of \$30.0 billion, up 44% over 2002
- > Non-performing assets declined to 0.76% of total assets, from 1.05% at December 31, 2002

- > July 2003 marked the completion of our third year as a depository institution. Deposits grew at a 105% compounded annual growth rate since the acquisition of our depository institution, July 1, 2000
- > IndyMac's mortgage website is ranked the #1 overall mortgage website by Gomez, an internet quality measurement firm, a position it has held for seven of eight measurement periods since fall 2000
- > Named to Business Week's Web Smart 50 and included in S&P's PowerPicks Portfolio for the third consecutive year
- > Total shareholder return for 2003 of 65%, significantly exceeding the Dow Jones Industrial Average and S&P 500 returns of 28% and 29%, respectively

## Financial Highlights

	Year ended December 31,	
	2003	2002
Dollars in millions, except per share amounts		
<b>Income statement</b>		
Net revenues	\$ 708	\$ 575
Net earnings	\$ 171	\$ 143
Earnings per diluted share	\$ 3.01	\$ 2.41
<b>Balance sheet (period end)</b>		
Total assets	\$13,240	\$ 9,574
Total equity	\$ 1,017	\$ 850
Book value per share	\$ 17.93	\$ 15.50
Debt to equity <sup>1</sup>	12.0:1	10.3:1
Core capital ratio <sup>2</sup>	7.56%	8.70%
Risk-based capital ratio <sup>2</sup>	12.95%	15.02%
<b>Performance ratios</b>		
Return on average equity	18.3%	16.6%
Return on average assets	1.5%	1.8%
Dividend payout ratio	18.3%	0.0%
Efficiency ratio <sup>3</sup>	58%	58%

<sup>1</sup> Debt for this purpose includes deposits.

<sup>2</sup> IndyMac Bank, F.S.B. (excludes unencumbered cash at the Parent Company available for investment in IndyMac Bank). Risk-based capital is based on the regulatory standard risk-weighting. With IndyMac's additional risk-weightings for subprime loans, the ratios are 12.29% and 14.03% as of December 31, 2003 and 2002, respectively.

<sup>3</sup> Defined as operating expenses divided by net interest income and other income.



## Corporate Profile

IndyMac Bancorp, Inc. (NYSE: NDE) is the holding company for IndyMac Bank®, the largest savings and loan or bank headquartered in Los Angeles County and the 14th largest thrift nationwide (based on assets). Founded in 1985, IndyMac® is in the business of designing, manufacturing, and distributing cost-efficient financing for the acquisition, development, and improvement of single-family homes. IndyMac also provides financing secured by single-family homes to facilitate consumers' personal financial goals and strategically invests in single-family mortgage related assets. We facilitate the acquisition, development, and improvement of single-family homes through our award-winning e-MITS® (Electronic Mortgage Information and Transaction System) platform that automates underwriting, risk-based pricing and ratelocking on a nationwide basis via the Internet at the point of sale. IndyMac Bank offers highly competitive mortgage products and services that are tailored to meet the needs of both consumers and business professionals.

IndyMac is structured to achieve synergies among its operations and to enhance customer service. Operating through its three main segments, IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group, the common denominator of the Company's business is providing consumers with single-family residential mortgages through relationships with each segment's core customers via the channels in which each operates.

IndyMac Mortgage Bank is focused on providing consumer mortgage products through relationships with mortgage and real estate professionals. The Mortgage Bank also provides commercial loans to homebuilders for the purpose of constructing new, single-family residences.

IndyMac Consumer Bank provides the platform for the mortgage and FDIC-insured deposit products and services that IndyMac offers directly to consumers.

The Investment Portfolio Group serves as the main link to customers whose mortgages we service. Through its investments in single-family residential mortgages, mortgage-backed securities and the servicing of over \$37 billion of single-family mortgage loans, the Investment Portfolio Group generates core spread and fee income and provides critical support to IndyMac's mortgage lending operations.

IndyMac's management is committed to delivering superior returns and shareholder value. IndyMac's total annualized return to shareholders for the period December 31, 1992 through December 31, 2003 of 24%, under its current management team, has exceeded the comparable returns of 13% and 11% for the Dow Jones Industrial Average and S&P 500, respectively, for the same period.

### INDYMAC'S BUSINESS FOUNDATION

**Business Definition:** IndyMac is in the business of designing, manufacturing, and distributing cost-efficient financing for the acquisition, development, and improvement of single-family homes. IndyMac also provides financing secured by single-family homes to facilitate consumers' personal financial goals and strategically invests in single-family mortgage related assets.

**Strategic Mission:** By year-end 2008, IndyMac, operating with the highest level of ethics, in compliance with all relevant regulations and laws and with a customer-friendly orientation, will be a top eight lender in the United States of America by being a low-cost provider of single-family permanent and construction lending financing, and the best manager of the risks related to such lending programs.

**Core Strategy:** We will gain share without compromising our profitability goals by executing a "Yong" three-pronged strategy:

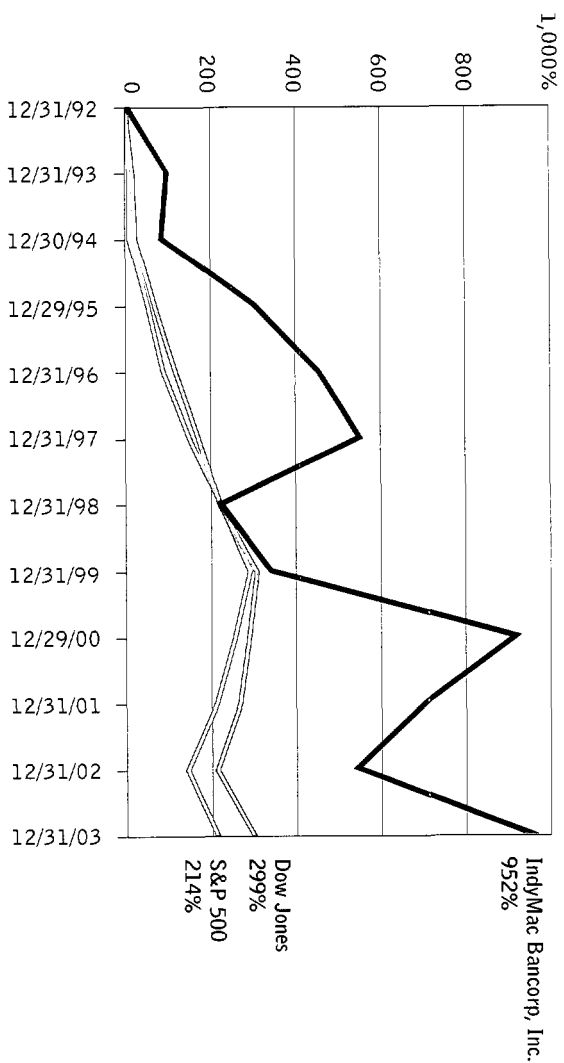
1. Leverage our mortgage and loan infrastructure through the expansion of our marketing and sales efforts and geographic presence and create specialty new mortgage lending products.
2. Balance our underperformance from servicers with a high performing asset manager.
3. Establish a secure and reliable platform for our business.

The above contains forward-looking statements and actual results may vary from our predictions.

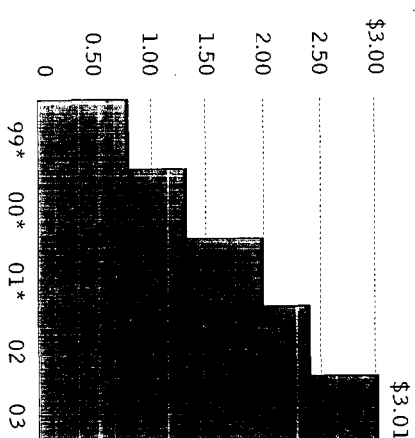


# THINK GROWTH.

## SHAREHOLDER RETURNS



## EPS



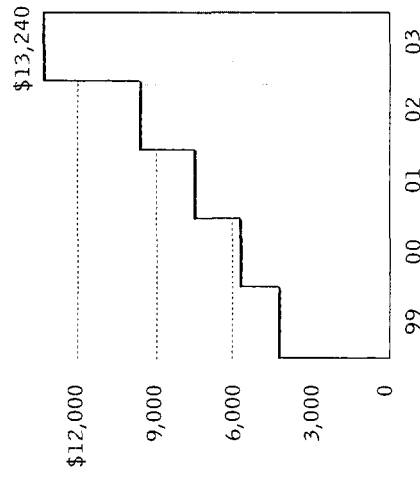
CAGR **37%**

1999 gives effect to the change in the Company's structure to a fully taxable entity; 2000 earnings exclude a \$25.5 million net gain primarily related to a one-time tax benefit associated with IndyMac's transition from a REIT to a depository institution; 2001 earnings exclude a \$10.2 million net charge primarily due to a cumulative effect of a change in accounting principle.



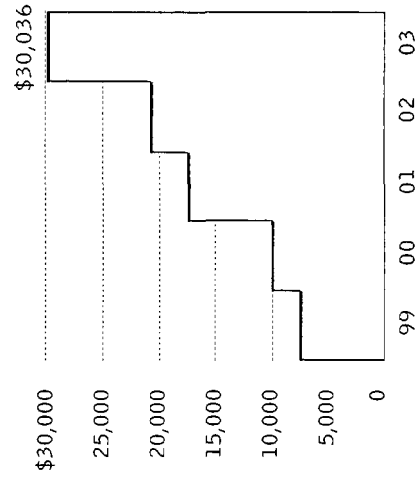
(in millions)

## ASSETS



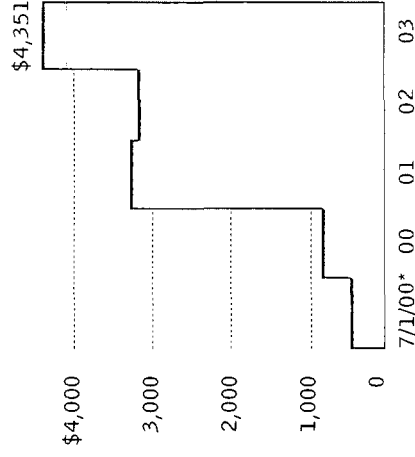
CAGR 35%

## PRODUCTION



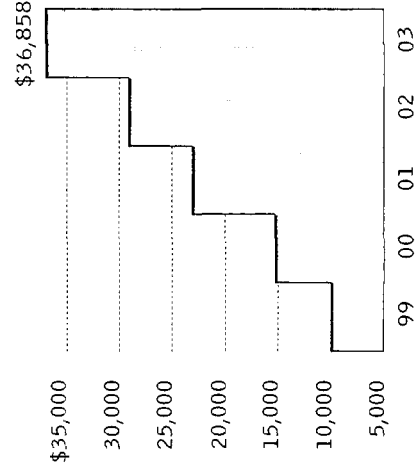
CAGR 44%

## DEPOSITS



CAGR 105%

## SERVICING



CAGR 38%

\* Represents acquisition date of depository institution.



# THINK VISION.

## Dear Shareholders:

IndyMac's results for 2003 were strong. Loan production increased by 44% to \$30.0 billion, a new record, and total assets grew by 38% to \$13.2 billion. As a result, we achieved record levels of revenues and earnings of \$708.1 million and \$171.3 million, respectively. Earnings per share (EPS) reached \$3.01, a 25% increase year-over-year, which was well ahead of our long-term targeted growth rate of 15%. Return on equity was 18.3% and book value per share of \$17.93 reflected a 16% increase. While the mortgage industry as a whole also reported record volumes, volatile interest rates created risk management challenges for many of our peers. We began to see companies exiting the mortgage business or reporting subpar results in the face of these challenges. IndyMac's disciplined interest rate and credit risk management ensured solid results for the Company during this period.

While strong, these results would likely have been better in 2003 if we were a pure mortgage banker with all of our capital devoted to mortgage banking activities. IndyMac operates as a hybrid thrift/mortgage bank, which means we have capital devoted to both investing activities and mortgage banking activities. To illustrate, we retained for investment purposes \$4.4 billion of our mortgage loan production that if we were a pure mortgage banker, we would have sold for gains in 2003.

During periods of declining interest rates, IndyMac's investing activities tend to underperform due to accelerated prepayment activities but mortgage banking returns increase—this occurred in 2003. During periods of stable to rising rates, the returns on investing activities improve and serve to balance the expected declines in mortgage loans produced. As a result, our business model is expected to produce more stable, consistent results over the long-term than a pure mortgage banker that is more influenced by the cycles.

This balance was proven during the fourth quarter of 2003. As mortgage interest rates rose, the returns from our investing activities improved from -3% in the third quarter at the peak of the refinance boom to 8% in the fourth quarter. This improvement served to significantly offset the expected decline in mortgage production from \$8.5 billion in the third quarter to \$6.3 billion in the fourth. As a result, while the overall mortgage industry production declined by 49%, we reported EPS of \$0.75, our second highest on record. And the decline in our mortgage production of 26% was significantly less than the overall industry such that our market share improved 44%.

In addition to strong operating performance, we also reestablished quarterly dividend payments in the first quarter of 2003. The dividend payments, combined with increased investor confidence in our hybrid model to provide strong returns after the refinance boom, resulted in an improved price/earnings multiple on our shares and a total





shareholder return for the year of 65%. While the price/earnings multiple has improved, it remains at a 28% discount to our average over the last decade and a 44% discount to the average thrift multiple.

#### Outlook for 2004

The drivers of our earnings during the fourth quarter of 2003—improved returns in our investing activities, earning asset growth and market share gains—will continue to be our focus as we look ahead to 2004. Given the significant transition underway in the mortgage industry, our forecasted range for 2004 EPS is \$2.90 to \$3.25<sup>1</sup>, which is relatively level with the 2003 result. After 2004, we expect to resume EPS growth at our targeted annual rate of 15% or better given our more than ten year compounded annual growth rate of 27%.

#### We remain exclusively focused on the single-family residential mortgage market.

As we look further ahead, our strategies remain consistent. We continue to believe that a disciplined and exclusive focus on the mortgage market will serve IndyMac and its shareholders well. Mortgage debt outstanding (a statistic which filters out the refinancing cycles) expands consistently at a 7% to 8% annual growth rate. For those companies with the exclusive focus and expertise that we have, this market provides a great platform for EPS growth and robust shareholder returns.

After carefully analyzing trends in the mortgage industry, we have set two key five-year goals for IndyMac:

- > To become the eighth largest mortgage originator by 2008 (we're now the 19th largest).
- > To achieve EPS of \$8 per share by 2008.

<sup>1</sup> The range for 2004 does not yet factor in a potential change in accounting discussed by an SEC staff member in a speech in December 2003, but not yet issued in written form. If this change comes to fruition, it would impact the timing of revenue recognition and have a one-time negative impact on gain on sale revenues in the quarter implemented. This potential change is described in more detail in our Form 10-K.

The following discussion represents questions frequently put forward by our shareholders with responding remarks from Michael W. Perry, IndyMac's Chairman and CEO.

### Q. WHAT DO YOU SEE AS INDYMAC'S MOST SIGNIFICANT ACCOMPLISHMENTS OVER THE LAST 11 YEARS?

- A. When I was brought aboard, in January of 1993, we were a mortgage REIT with \$714 million in assets, \$119 million in equity capital and we were trading at a \$75 million market cap, or 63% of book value. This low price/book was due to the fact that \$74 million of that capital was tied up in assets that were losing money, and the other \$45 million was in cash. We also had four employees and no customers. Today, we have more than \$13 billion in assets, over \$1 billion of equity, annual loan production of \$30 billion and 3,883 employees. We're now the largest depository in Los Angeles County and the 14th largest thrift in the country based on assets. In the fourth quarter of 2003, the National Mortgage News ranked us as the 19th largest mortgage originator and the 20th largest mortgage servicer in the nation. We are members of the S&P 400 and Russell 1000 indices. We got to where we are through hard work and an ability to adapt to a variety of challenges with entrepreneurial thinking.

### Q. HOW DOES YOUR HYBRID THRIFT/ MORTGAGE BANKING BUSINESS MODEL POSITION YOU FOR GROWTH?

- A. IndyMac's hybrid model makes the Company both a portfolio lender and a trader/mortgage banker of mortgage loans. As such, IndyMac can deploy more capital into the sector that is performing the strongest at any given time, maximizing return on equity and shareholder value. The two activities—portfolio lending and mortgage banking—complement each other and act to stabilize earnings in varying interest rate environments.



**Q. THE MORTGAGE BANKERS ASSOCIATION PREDICTS MORTGAGE ORIGINATIONS WILL DROP BY 47% IN 2004. WHAT ARE THE RAMIFICATIONS FOR INDYMAC IF THIS HAPPENS?**

**A.** Much of the impact of this decline was already evident in the fourth quarter of 2003. Industry production decreased 49% from the third to the fourth quarter. IndyMac's fourth quarter reflected market share gains of 44% and improved returns in our investing activities with the result that we earned \$0.75 per share, our second highest quarter on record. The MBA's full year 2004 projection of \$2.0 trillion of mortgage production represents an additional decline of 19% off the fourth quarter run rate. In this environment, we are projecting that EPS will remain relatively flat to 2003 EPS. Frankly, we are pleased that the market transition is taking place, since we believe it will highlight the strong, well-positioned companies such as IndyMac from the weaker players.

**Q. YOU OFTEN REFER TO INDYMAC AS A MERITOCRACY. OR PERFORMANCE-BASED CULTURE. CAN YOU ELABORATE ON HOW THAT CULTURE IS REFLECTED IN YOUR BUSINESS MODEL, AND WHAT EFFECT IT HAS ON THE BOTTOM LINE?**

**A.** A meritocracy rewards achievement. If you don't have a meritocracy, the only alternative is a politically driven system, which rewards employees unevenly and creates morale issues for the top performers versus the top politicians. Rewarding people for hard work also helps to manage risk and keep employees' interests aligned with the owners'. Cost is a competitive advantage in the mortgage business, and compensation programs that are more performance-based help the Company to manage costs efficiently and effectively.

To be sure, these are big goals. But based on our growth and effective execution over the last decade, we think these targets are achievable. To be successful in this industry, companies must have scale in their mortgage originations and diversified earnings streams. Our strategies are designed to capitalize on the strengths of our hybrid model to gain market share, increase profitability, and ultimately enhance shareholder returns.

These strategies are as follows:

1. Leverage our mortgage lending infrastructure to expand our marketing and sales efforts, our geographic presence, and to create specialty niche mortgage lending businesses.
2. Balance earnings and enhance franchise value by:
  - a. Establishing a Southern California retail banking franchise.
  - b. Building our investment portfolio.
3. Support the above strategies:
  - a. Investing in a strong team and state-of-the-art capabilities in mortgage manufacturing, risk-based lending, trading and investing.
  - b. Enhancing our performance culture to out-execute the competition.

#### **Leveraging our Mortgage Lending Infrastructure**

Geographic expansion to leverage our core mortgage lending business is key to building scale in our business. As we open new regional centers and expand our sales and marketing efforts in these areas, we not only attract new mortgage broker customers but also obtain a greater share of business from existing customers in those locations. To this end, in 2003 we opened two new regional sales and operations centers—one in Dallas and one in Seattle—for a total of seven today. Our plan is to increase the number of regional centers across the country from 15 to 20 by 2008 and to add sales and marketing personnel accordingly. During 2003, we increased our sales and marketing personnel by 78% for a total of 848 across our channels of business.



In addition to mortgage brokers and bankers, IndyMac has established relationships with other real estate professionals such as Realtors and homebuilders who have close associations with consumers in the market for a new home. During 2003, our Realtor and homebuilder channels produced \$970 million and \$508 million of mortgage loans, respectively. While still relatively small, these numbers reflect growth of 81% and 306%, respectively, from 2002, demonstrating the strong potential that these lines of business hold.

We have also begun an initiative to reestablish correspondent relationships with mid to large size mortgage bankers and financial institutions on a delegated basis. These institutions can effectively use our technology and broad product line to expand their business. We believe that the correspondent market offers an efficient way of increasing market share and shareholder returns due to its lower cost structure. We expect this initiative to approximate 10% of our mortgage production in 2004.

#### Establishing a Southern California Retail Banking Franchise

Taking advantage of our location in Southern California, one of the strongest consumer and housing markets in the nation, we have made a commitment to increase our retail banking presence. We plan to expand our current 10-branch system to 40 branches by the end of 2006, and possibly to 100 branches by 2008. These branches will be focused on providing mortgage and home equity loans and raising deposits throughout Los Angeles and Orange Counties. Our projections show that a larger branch network with an emphasis on mortgage lending will better leverage our retail banking general and administrative costs and lower the cost of deposits, thus enabling the retail branch system to make a meaningful contribution to the bottom line. We believe this strategy will also work to create more shareholder value, as thrifts with retail franchises tend to command higher price/earnings multiples.

#### Q. IS INDIYMAC AN ACQUISITION TARGET?

A. IndyMac is for sale every day on the New York Stock Exchange. With that said, we are stewards of our shareholders' capital. We will evaluate any offer in light of our fiduciary responsibility to our shareholders. However, as we look at our business plan, we believe we have tremendous prospects on our own. We have a relatively young management team and we have the capability of leveraging our significant investment in our mortgage banking/thrift infrastructure to grow IndyMac to an institution many times our size. This creates tremendous opportunity to improve returns over the long term.

#### Q. YOU REESTABLISHED DIVIDEND PAYMENTS LAST YEAR. WHAT'S YOUR PHILOSOPHY REGARDING THAT?

A. We inherited our mortgage REIT structure that required us to pay 95% of our earnings in the form of dividends. When we began our transition to become a depository institution, we stopped our dividend payments and believed that as we grew, we would provide returns to our shareholders in the form of increased price appreciation in our shares. In fact, I swore that I would never pay dividends again. Well, the world changed and our views have changed with it. As the tech boom collapsed and old-fashioned stock valuations, including dividends, returned to prominence, accompanied with favorable changes in the tax law for dividends, we began to see investors paying higher multiples for companies providing dividends, particularly among our thrift peers. As a result, we reestablished our dividend and believe that providing returns to shareholders in the form of dividends is appropriate.



## Q. WHAT IS YOUR CURRENT OUTLOOK FOR THE DIVIDEND RATE?

A. We reestablished quarterly dividend payments in the first quarter of 2003 with a quarterly payment of \$0.10 per share. We increased that dividend three times since, leading to our current rate of \$0.25 for the first quarter of 2004—an increase of 150% over our first quarter 2003 dividend. With interest rates expected to rise this year and mortgage production levels expected to fall, we're forecasting little change in earnings per share for 2004, in contrast to the 27% compounded annual growth rate we recorded over the previous 11 years. Given this outlook, I favor continued strong increases in the dividend rate during this period to reward our loyal shareholders, at least until we begin to resume EPS growth at a more normalized rate. With our current payout ratio under 35%, we still have a lot of room to grow. And IndyMac's current dividend yield of approximately 3% is very attractive compared to the 1.5% yield of the S&P 500 Index.

### Building our Investment Portfolio

As noted earlier, our investing activities serve a strategic function in our hybrid thrift/mortgage banking business model to help stabilize earnings when mortgage production declines. Total loans held for investment increased 89% to \$7.4 billion. The primary driver of this increase was a 136% increase in SFR mortgage loans held for investment, which more than doubled to \$4.9 billion. In addition, the portfolio of mortgage loans that we service both on balance sheet and for others increased 27% to \$37 billion. With a targeted return of 15% to 20% on our investing activities, we expect that the growth in these portfolios will provide balance to our rapidly growing, but cyclical mortgage banking activities in a post refinance boom environment.

### Other Initiatives

We have made a significant investment in both our mortgage banking and thrift infrastructure including an investment in a strong team and state-of-the-art technologies. Our existing infrastructure is capable of managing an institution many times our current asset and loan volume size with marginal investments in sales, marketing and operational costs. This is a key driver of earnings enhancement over time.

To enhance our technology infrastructure and improve efficiencies in our core business, we are currently focused on digitizing and imaging the middle tier processing of our mortgage manufacturing activities. This will close the gap between our strong automated front-end underwriting and pricing systems and our back-end automated servicing capabilities. As we complete the full automation of mortgage processing from front to back, we will have the ability to perform many of the routine tasks of mortgage processing from anywhere in the world and achieve significant cost savings.

I'd like to take this opportunity to welcome Terrance G. Hodel to our Board of Directors. Terry has more than three decades of senior management experience in mortgage banking and financial institutions management, including his service as President and Chief Operating Officer of North American Mortgage Company, one of the top mortgage bankers in the



Country prior to its acquisition by Dime Bancorp, Inc. He brings a wealth of mortgage banking expertise and insight into the industry and fills a big gap created by the loss of our Founder and Honorary Chairman Emeritus David S. Loeb.

Earlier this year we marked the passing of David. I was one of many young business people who had the benefit of David's mentoring and I will miss his vision, intelligence and wise counsel. We will never forget him and all that he taught us. We will honor David's memory by continually striving to make IndyMac one of the most ethical, profitable and innovative thrifts/mortgage bankers in the business.

#### **In Closing**

There's a great deal of work to do this year and beyond to achieve the goals we have set for ourselves. I'm optimistic that we will succeed because of the caliber of leadership and dedication I see in our employees. We are at the very early stages of reaping the benefits of the infrastructure and team that we have put in place and I see a strong and bright future for IndyMac.

And on behalf of all our employees and directors, I'd like to thank you, our shareholders, for your continuing support of and interest in IndyMac.



**Michael W. Perry**  
Chairman and Chief Executive Officer



# THINK INDYMAC.

## Business Model

IndyMac's hybrid thrift/mortgage banking business model provides a strong framework for growth over the long-term and the flexibility to operate in a wide variety of interest rate environments. Within this model we are focused on providing the financing for the acquisition, development and improvement of single-family homes.

As a mortgage banker, we originate mortgage loans for sale to investors. Our mortgage banking activities are characterized by a higher asset turnover rate than a traditional savings and loan and more efficient utilization of capital. Revenues generated by our mortgage banking activities include gain on sale of mortgage loans, fee income and net interest income during the period of time loans are held pending sale. Mortgage banking activities are characterized by higher returns on invested equity, but can be cyclical in nature. Mortgage loans may be sold as whole loans to other financial institutions, sold in bulk to government sponsored enterprises—such as Freddie Mac and Fannie Mae—or securitized and sold to investors in mortgage-backed securities.

As a thrift, we also originate loans to be held for investment on our balance sheet, which capitalizes on our ability to raise deposits and access the Federal Home Loan Bank system to finance these assets efficiently. Such investing activities provide a source of revenues that is generally counter-cyclical to mortgage banking revenues. These revenues consist primarily of interest income and servicing fees over the life of the loans. IndyMac is strategically focused on increasing the relative size of our portfolios of prime mortgage and home equity loans, as well as mortgage servicing rights, to achieve greater balance between our

mortgage banking activities and our investing activities. We believe that our investing activities will increasingly act to stabilize IndyMac's core income.

Prudent allocation of capital between our mortgage banking and investing activities in varying interest rate environments tends to stabilize earnings through the mortgage cycles. In periods of declining interest rates, we allocate more capital to our mortgage banking activities as lower interest rates create increased demand by consumers to refinance higher rate mortgage loans. In such periods, we would expect to see stronger revenues and returns on invested equity from our mortgage banking activities and lower relative returns on our investing activities as prepayments resulting from the refinancing trends that are occurring shorten the lives of these assets. Conversely, in periods of stable to rising rates, we tend to allocate more capital to our investing activities as mortgage refinancing activities slow. During this time we would expect to see improved returns on equity in our investing activities as the duration of our investments extends with lower prepayments while the returns in our mortgage banking activities would be expected to decline.

IndyMac's three main segments, IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group, each have operations that encompass our mortgage banking activities and investing activities as shown on the following page.



During 2003, the mortgage industry produced \$3.8 trillion of mortgage loans, an all-time high, as interest rates touched 40-year lows. A transition back to more normal mortgage production levels began late in 2003 as interest rates began to rise. The Mortgage Bankers Association of America forecasts that industry-wide mortgage production will decline 47% in 2004 to \$2 trillion.

The table below illustrates IndyMac's strategy to allocate capital to its investing and mortgage banking activities to achieve balanced results in the face of a very significant transition in the industry. Our outlook currently anticipates relatively stable results through the transition in 2004. We would then expect to continue to grow our EPS at our targeted 15% or better annual rate after this transition is completed.

PRODUCTS BY SEGMENT AND ACTIVITY				
ACTIVITIES	RELATIONSHIP BUSINESSES IndyMac Mortgage Bank	CONSUMER-DIRECT BUSINESSES IndyMac Consumer Bank	Investment Portfolio Group	
Mortgage Banking	Mortgage loans held for sale produced via relationships with mortgage brokers, mortgage bankers, Realtors, homebuilders, and financial institutions	Mortgage loans held for sale produced directly with consumers via the Internet, over the phone or through our Southern California retail branch network	Mortgage loans held for sale produced via relationships with existing mortgage customers whose loans we service	
Investing	Commercial loans to home-builders to finance the subdivision development of single-family homes and consumer construction loans that are sourced through all of IndyMac's channels, both relationship and consumer direct	Home equity lines of credit—this product focused division supports the production of HELOCs through all of IndyMac's channels, both relationship and consumer direct	Mortgage loans held for investment, mortgage securities, mortgage servicing rights and the related derivative investments used to hedge such items	
Financing		Retail deposit products including checking, savings, certificates of deposit, IRAs and online bill payment services		

(\$ in millions except per share amounts)

**Pre-tax Earnings, Capital and ROE by Business Activity**

	Earnings	2003 ACTUAL Average Capital	ROE	Earnings	2004 FORECAST <sup>1</sup> Average Capital	ROE
Mortgage banking	\$ 405	\$213	115%	\$ 245	\$ 201	74%
Investing	26	517	3%	175	712	15%
Corporate and other net items	(148)	206	—	(121)	164	—
Total Pre-tax Income, Capital and ROE	283	\$936	18%	299	\$1,077	17%
Net income	\$ 171	—	—	\$ 181	—	—
EPS	\$3.01	—	—	\$3.07	—	—

<sup>1</sup> Range for 2004 is \$2.90 to \$3.25 per share. This range does not yet take into account the potential SEC change in accounting discussed in a speech by an SEC staff member in December 2003 which could impact timing of income recognition. Please refer to IndyMac's Form 10-K for additional information.



## Segments

IndyMac operates through three main divisions—IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group. Through these divisions, IndyMac offers highly competitive mortgage products and services that are tailored to meet the needs of both businesses and consumers:

IndyMac Mortgage Bank is our relationship business that serves a wide range of business customers nationwide, including mortgage brokers, mortgage bankers, financial institutions (our B2B channel), Realtors® (our B2R channel) and homebuilders (our HBD division). It also includes our Home Construction Lending division (our HCL division).

IndyMac Consumer Bank provides consumers a wide range of single-family residential mortgage and retail banking products using a centralized, technology-based approach and branch locations in Southern California.

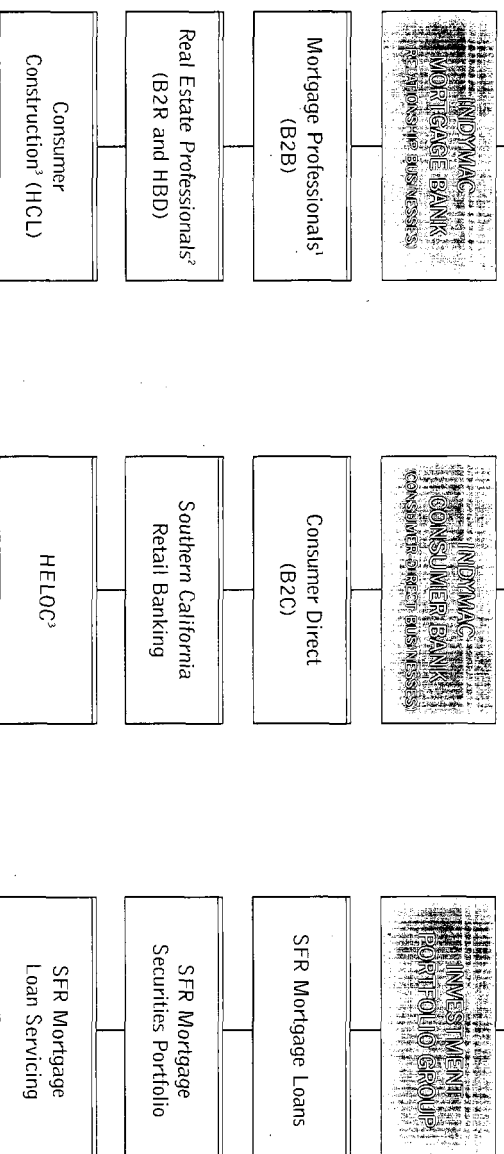
The Investment Portfolio Group consists predominately of prime, single-family residential mortgage loans, mortgage securities and mortgage loan servicing.

### IndyMac Mortgage Bank

#### MORTGAGE PROFESSIONALS (B2B)

Our B2B channel was responsible for 6.2% of our total mortgage production during 2003. B2B acquires mortgage loans from mortgage brokers, mortgage bankers and financial institutions. Strong teams of professionals work closely with our B2B customers to ensure exceptional customer service that fosters a mutually rewarding relationship extending from us to our business customers and on to their retail clients.

## INDYMAC BANCORP, INC.



<sup>1</sup> Includes mortgage brokers, mortgage bankers and financial institutions.

<sup>2</sup> Realtors and homebuilders.

<sup>3</sup> Products that are sourced through all channels.

#### REALTORS (B2R)

Through our LoanWorks® brand, we serve real estate professionals who are interested in cross-selling mortgage loans as an additional service to their home purchase clients. Having the Realtor as a single point of contact eliminates the confusion surrounding the status and consummation of the home purchase for many homebuyers.

LoanWorks.com allows real estate agents to utilize our web-based e-MITS technology as their in-house mortgage processing center and their online origination management system. As industry trends change and mortgages to facilitate home purchases again become the dominant transaction in the mortgage business, this channel offers an opportunity to connect with a primary source of new revenue, while allowing Realtors to provide more value to their customers.



#### **HOMEBUILDERS (HBD)**

The primary focus of our homebuilder division is to generate single-family residential mortgage loans through our business of lending to subdivision developers. Our strategy includes developing relationships with homebuilders through direct customer contact and program presentations, as well as drawing upon existing construction lending builder relationships and industry contacts. Similar to our B2R channel, the generation of mortgage loans through homebuilders provides a strong growth opportunity in the home purchase loan market.

#### **HOME CONSTRUCTION LENDING (HCL)**

IndyMac Bank Home Construction Lending (HCL) is one of the largest consumer construction lenders in the nation, offering a variety of residential construction loan programs and lot loan financing through brokers and directly to consumers. Through our streamlined e-MITS online application process, HCL offers a single-close construction-to-permanent loan that provides borrowers with the funds to build a primary residence or vacation home. HCL customers have convenient online access to construction funds and loan information at any time.

#### **IndyMac Consumer Bank CONSUMER DIRECT (B2C)**

Our highly rated B2C website offers a wide range of home loan products directly to consumers nationwide. This site enables consumers to apply for a mortgage loan, obtain loan approvals, lock in an interest rate and receive a printable approval letter, all online, and within minutes. The website also features online loan status information, daily rate comparisons to major competitors, and a quick mortgage rate pricing tool. Through B2C's telemarketing operations and our Southern California retail banking branch network, loan consultants counsel consumers with respect to the loan application process, process loan applications utilizing our e-MITS technology, and make lending decisions.

#### **SOUTHERN CALIFORNIA RETAIL BANKING**

Through our website at [www.indymacbank.com](http://www.indymacbank.com), consumers can access their accounts 24-hours a day, seven days a week. Online banking allows customers to access their accounts, view balances, transfer funds between accounts, view transactions, download account information and pay their bills conveniently from any computer terminal. Consumers can also conduct transactions through our telebanking operation or in one of our Southern California branches. Our deposit products include regular savings accounts, demand deposit accounts, money market accounts, certificate of deposit accounts and individual retirement accounts.

#### **HELOC**

IndyMac's Home Equity Division specializes in providing second mortgages and Home Equity Lines of Credit (HELOCs) nationwide through direct marketing to homeowners. With a streamlined application process and competitive pricing, this division provides homeowners the ability to easily tap the excess equity in their homes for a variety of uses. With the HELOC product, homeowners have convenient access using equity checks or a Visa® credit card. IndyMac's home equity products are available across all IndyMac's mortgage channels to new and existing mortgage or banking customers.

#### **Investment Portfolio Group**

Our Investment Portfolio Group complements the Company's mortgage banking activities and serves to diversify the Company's revenue stream through its investments in single-family mortgage loans, mortgage-backed securities and mortgage servicing rights. In addition to generating revenue for the Company, the Investment Portfolio Group performs the mortgage servicing function. This creates an additional opportunity to recapture current customers when the interest rate environment makes it attractive for them to refinance. Servicing customers can also be cross-marketed with other Company products such as HELOCs or other banking services. Our policy is that all of our investment portfolio assets, including assets acquired from the Mortgage Bank or Consumer Bank, must meet or exceed minimum targeted return requirements.



# THINK INTEGRITY.



## Corporate Governance

At IndyMac, sound judgment, strong leadership and a solid enterprise risk management system help to mitigate the risks inherent in our business. In response to questionable behavior by some corporate stewards in recent years, the U.S. Congress, the Securities and Exchange Commission and the New York Stock Exchange have all implemented programs to ensure that corporate directors and officers are carrying out their fiduciary duties and that there are adequate internal controls to protect shareholder interests.

IndyMac welcomes this increased scrutiny. Over the past several years as we have made our transition to a federally regulated depository institution, corporate governance—in tandem with solid enterprise risk management—has been a key focus. To this end, we have instituted a number of important governance changes reinforcing our commitment to our shareholders, the public markets, our regulators and our employees.

The philosophy of our corporate governance policy centers on the fiduciary duties of care and loyalty that must be exercised by the directors and officers of the Company. Care includes the responsibility to understand our business and review all reasonably available information before making decisions on behalf of the Company—to act in IndyMac's best interests. Loyalty calls for the settlement of conflicts

of interest to be resolved in the Company's favor. We have taken a number of proactive steps to see that these values are honored:

- > Seven of our eight holding company Board members are "independent" as defined by the New York Stock Exchange listing standards
- > Nine of our ten bank Board members are independent
- > We have a presiding independent director
- > All members of our Board committees are independent
- > The independent members of the Board meet regularly without the presence of management
- > All three members of our Audit Committee meet the Securities and Exchange Commission's definition of "audit committee financial experts"
- > We have stock ownership requirements for Board members and executive officers
- > IndyMac has a code of ethics and conflict of interest policy which is documented, updated and disseminated to employees regularly
- > A hotline is available to all employees to facilitate anonymous reporting of any questionable activities

## Corporate Governance Quotient

One of the most frequently cited evaluations of a company's corporate governance policies is the corporate governance quotient (CGQ), provided by Institutional Shareholder Services. The CGQ ranks a company against its index peer groups and industry peer groups. Since its initial rating in July 2002, IndyMac consistently ranks among the top companies in its S&P 400 and banking industry peer groups. The CGQ is a dynamic rating that is influenced



by the actions of the companies in our peer indices and can change daily. As of February 23, 2004, IndyMac was ranked in the top 3 percent of its banking industry peer group and in the top 12 percent of its S&P 400 peer group.

#### Meritocracy

At IndyMac, we think the best way to foster an environment that supports the goals of corporate governance—to ensure a sense of responsibility to the Company and its shareholders—is to acknowledge and promote the best and brightest in our workforce. We believe that rewarding those who align their interests with those of the owners is the best way to eliminate needless risk and ensure loyalty to our mission and corporate values. Our aim is to build a “meritocracy,” where performance is the only criteria for advancement. With this in mind, many of our employees are under performance-based compensation programs that tie remuneration to results. A dedication to create shareholder value—and safeguard it—is reflected in a myriad of ways and through a variety of programs throughout the Company. The Company’s intent is to reward initiative, promote creativity, and create an environment where excellence can flourish at all levels.

**INDYMAC’S CGQ CONSISTENTLY RANKS AMONG THE TOP COMPANIES IN ITS S&P 400 AND BANKING INDUSTRY PEER GROUPS.**

#### Corporate Giving

IndyMac’s values are also reflected in its dedication to the communities in which it does business. As a regulated financial institution, IndyMac is subject to the requirements of the Community Reinvestment Act (CRA). Through the structure of the CRA, IndyMac provides invaluable support to a variety of non-profit, community-based organizations that help to secure and preserve affordable housing. In conjunction with its CRA commitments, the Company supports organizations that have a positive impact on the quality of life in their communities, such as The Wellness Community, the YMCA, the American Red Cross and Kidspace Museum.

In addition to the Company’s financial contributions, IndyMac employees regularly give their time and enthusiasm to projects that help to renovate and rehabilitate housing with fresh paint and repairs. Others are involved in workshops and seminars that help promote the dream of home ownership by teaching the basics of getting a loan, obtaining down payment funds and maintaining good credit.

Through the Company’s “IndyMac Match” program, employees can have gifts to their favorite charities matched dollar-for-dollar by IndyMac. This year, in response to the Southern California wildfires, the Company doubled the amount it normally provides to this program, with the

#### 2003 COMMUNITY INVOLVEMENT

Donations of computer-related equipment to educational programs	\$ 98,960
Pasadena Playhouse	50,000
Junior Achievement	36,000
YMCA of Pasadena	30,000
Hope Through Housing	25,000
KCET-PBS Affiliate	25,000
Wellness Community	25,000
American Red Cross	20,000
Kidspace Museum	20,000
San Gabriel Valley Boy Scouts	20,000
Housing California	15,000
L.A. Neighborhood Housing Services	15,000
All other gifts	368,102
<b>Total Corporate Giving</b>	<b>\$748,062</b>
<b>Total Employee Giving</b>	<b>\$149,963</b>

caveat that the extra contributions would match gifts that were earmarked for groups that provided relief services to those affected by the wildfires. IndyMac employees stepped up to lend a hand with an additional \$20,000 for wildfire relief efforts.

Through exceptional customer service, devotion to shareholder value, and a strong commitment to their neighbors, IndyMac’s directors, officers and employees are dedicated to our customers, our shareholders and our communities.



## COMMITTEE COMPOSITION

### Audit Committee

Hugh M. Grant (chair)  
Robert L. Hunt II  
James R. Ukropina, Esq.

### Management Development and Compensation

James R. Ukropina, Esq. (chair)  
Louis E. Caldera  
Robert L. Hunt II

### Corporate Nominating and Governance

Patrick C. Haden (chair)  
Hugh M. Grant  
James R. Ukropina, Esq.

### Asset and Liability

Robert L. Hunt II (chair)  
Lyle E. Gramley  
Terrance G. Hodel  
Senator John Seymour (ret.)

### Community Lending, Compliance, Process and Technology

Senator John Seymour (ret.) (chair)  
Terrance G. Hodel  
Lydia H. Kennard

### Directors\*

#### INDYMAC BANCORP AND INDYMAC BANK

Michael W. Perry, Chief Executive Officer and Chairman of the Board of Directors of IndyMac and IndyMac Bank  
Mr. Perry has been leading the day-to-day operations of IndyMac since January 1993. Under his leadership, IndyMac has grown from four employees, \$71.4 million in assets and a market cap of \$75 million to 3,883 employees, total assets of \$13.2 billion and a market cap of \$1.7 billion, as of December 31, 2003. He has over 19 years of business experience with financial institutions, real estate firms and mortgage banking companies, including four years as a certified public accountant with KPMG LLP.

#### Louis E. Caldera, President, University of New Mexico

Mr. Caldera has an extensive background in public service including the following:

- > Appointed Secretary of the Army for the Clinton Administration
  - > Appointed Managing and Chief Operating Officer of the Corporation for National and Community Service for the Clinton Administration
  - > Three terms as a representative in the California State Assembly
  - > Vice Chancellor for University Advancement of The California State University System
- Mr. Caldera received a BS from the United States Military Academy, an MBA from Harvard Business School and a JD from Harvard Law School.

#### Lyle E. Gramley

Mr. Gramley is a former member of the Board of Governors of the Federal Reserve System. Since September 1985, he has been employed by the Mortgage Bankers Association of America as its chief economist and, more recently, as a consulting economist. Since June 2002, Mr. Gramley has been a Senior Economic Advisor with the Schwab Washington Research Group. He serves on the Board of Trustees of numerous mutual funds administered by Dreyfus Service Corporation. Mr. Gramley received his Doctorate from Indiana University.

#### Hugh M. Grant

Mr. Grant spent 38 years with Ernst & Young LLP (including service with Arthur Young & Company before its 1989 merger with Ernst & Whinney) where, among other things, he was Vice-Chairman and Regional Managing Partner-Western United States.

#### Patrick C. Haden

Mr. Haden has been a general partner of Riordan, Lewis & Haden, an equity investment firm, since 1987. Mr. Haden graduated Magna Cum Laude, Phi Beta Kappa from the University of Southern California and was awarded a Rhodes Scholarship to study Economics at Oxford University in England. Mr. Haden received a JD from Loyola Law School.

#### Terrance G. Hodel

Mr. Hodel most recently served as Chief Executive Officer of Paymap, Inc. Mr. Hodel has three decades of mortgage banking experience including service as President and Chief Operating Officer of North American Mortgage Company, from 1992 to 1997 when the company was acquired by

\* For more extensive biographies, please see IndyMac's 2004 proxy.



Dime Bancorp, Inc. Prior to his service at North American Mortgage Company, Mr. Hodel served as President and Chief Executive Officer of IMCO Realty Services, a large mortgage banking company, from 1985 to 1992, and was President and Chief Executive Officer of Wells Fargo Mortgage Company from 1979 to 1985. Mr. Hodel received an MBA from Stanford University.

#### **Robert L. Hunt II**

Mr. Hunt has three decades of experience working with regulated financial institutions, holding several senior executive-level positions, including 15 years at Coast Savings Financial, Inc., where he was President and Chief Operating Officer at the time of its acquisition in 1998. Prior to his service at Coast Savings, Mr. Hunt held the position of Vice President and Controller of Fidelity Federal Savings and Loan from 1980 to 1983 and was an audit manager at the public accounting firm of KPMG LLP where he served from 1972 to 1980.

#### **James R. Ukropina, Chief Executive Officer of Directions, LLC**

Mr. Ukropina served as senior partner with O'Melveny & Myers LLP from 1992 to February 2001 and remains Of Counsel to that firm. He has extensive legal and consulting experience in the area of corporate governance and has served on numerous boards, in both the private and public sector. Currently he is a director of Lockheed Martin Corporation and Pacific Life Insurance, and his former board affiliations include Stanford University, the California Business Roundtable and the California Economic Development Corporation. Mr. Ukropina received an MBA from Stanford University, and an LLB from the University of Southern California.



**Standing, left to right:**

Sen. John Seymour, ret.

Robert L. Hunt II

Lyne E. Granitsky

Terrance G. Hodel

Michael W. Perry

Patrick C. Haden

Abigail B. Calceira

James R. Ukropina, Esq.

**Seated:**

Lydia H. Kennard

Hugh W. Grant

#### **INDYMAC BANK**

##### **Lydia H. Kennard**

Ms. Kennard served as Executive Director of Los Angeles World Airports (LAWA) until November 2003. She joined LAWA in 1994 as Deputy Executive Director for Design and Construction. Prior to this, she was President of KDG Development Consulting (KDG), a Los Angeles-based firm specializing in land-use planning, development, programming and construction management for public and private sector clients. Ms. Kennard is currently serving KDG in a consultant capacity. Ms. Kennard received a Masters from the Massachusetts Institute of Technology and a JD from Harvard Law School.

##### **Senator John Seymour (ret.)**

Senator Seymour served as a California State Senator from 1982 to 1991 and as a United States Senator from 1991 to 1992 as a late-term replacement for California's newly elected Governor. Drawing on his extensive background spanning 40 years in the real estate industry, he is currently serving as the Chief Executive Officer of the Southern California Housing Development Corporation. Senator Seymour has served on a number of financial service boards including Los Angeles Federal Savings Bank and Countrywide Financial Services.



# CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share data

	2003	December 31	2002
<b>Assets</b>			
Cash and cash equivalents	\$ 115,485		\$ 196,720
Securities classified as trading (\$70.9 million and \$589.6 million pledged as collateral for borrowings at December 31, 2003 and 2002, respectively)	223,632		765,883
Mortgage-backed securities available for sale, amortized cost of \$1.6 billion (\$1.5 billion pledged as collateral for borrowings at December 31, 2003 and 2002)	1,613,974		1,573,210
Loans receivable:			
Loans held for sale			
Prime	2,196,488		1,939,780
Subprime	295,008		213,405
Consumer tot loans	81,752		74,498
Total loans held for sale	2,573,248		2,227,683
Loans held for investment			
SFR mortgage	4,945,439		2,096,517
Consumer construction	1,145,526		875,335
Builder construction	484,397		482,408
HELOC	711,494		312,881
Land and other mortgage	126,044		130,454
Income property	36,285		64,053
Allowance for loan losses	(52,645)		(50,761)
Total loans held for investment	7,396,540		3,910,887
Total loans receivable (\$7.6 billion and \$4.3 billion pledged as collateral for borrowings at December 31, 2003 and 2002, respectively)	9,969,788		6,138,570
Mortgage servicing rights	443,688		300,539
Investment in Federal Home Loan Bank stock, at cost	313,284		155,443
Interest receivable	51,758		47,089
Goodwill and other intangible assets	33,697		34,549
Foreclosed assets	23,677		36,526
Other assets	451,408		325,925
Total assets	\$13,240,391		\$9,574,454
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Deposits	\$ 4,350,773		\$3,140,502
Advances from Federal Home Loan Bank	4,934,911		2,721,783
Other borrowings	2,622,094		2,608,534
Other liabilities	315,182		253,670
Total liabilities	12,222,960		8,724,489
<b>Shareholders' Equity</b>			
Preferred stock — authorized, 10,000,000 shares of \$0.01 par value; none issued	—		—
Common stock — authorized, 200,000,000 shares of \$0.01 par value; issued 85,914,552 shares (56,760,313 outstanding) at December 31, 2003 and issued 83,959,547 shares (54,829,486 outstanding) at December 31, 2002	859		840
Additional paid-in-capital	1,043,856		1,007,936
Accumulated other comprehensive loss	(26,454)		(17,747)
Retained earnings	518,408		377,707
Treasury stock, 29,154,239 shares and 29,130,061 shares at December 31, 2003 and 2002, respectively	(519,238)		(518,771)
Total shareholders' equity	1,017,431		849,965
Total liabilities and shareholders' equity	\$13,240,391		\$9,574,454

Please refer to the complete set of financial statements and accompanying notes included in the Company's Annual Report on Form 10-K, Item 8: Financial Statements—Supplementary Data



# CONSOLIDATED STATEMENTS OF EARNINGS

Dollars in thousands, except per share data	Year ended December 31	
	2003	2001
<b>Interest income</b>		
Mortgage-backed and other securities	\$ 83,903	\$112,065
Loans held for sale		
Prime	180,630	127,571
Subprime	26,009	12,416
HELOC	—	6,929
Consumer lot loans	7,699	1,582
Total loans held for sale	214,338	148,498
Loans held for investment		
SFR mortgage	140,588	89,864
Consumer construction	60,392	55,660
Builder construction <sup>1</sup>	33,321	37,501
HELOC	21,885	3,124
Land and other mortgage	7,817	18,462
Income property	3,793	5,225
Total loans held for investment	267,796	209,836
Other	9,804	6,705
Total interest income	575,841	477,104
<b>Interest expense</b>		
Deposits	87,828	105,188
Advances from Federal Home Loan Bank	113,032	101,647
Other borrowings	64,044	60,981
Total interest expense	264,904	267,816
Net interest income	310,937	209,288
Provision for loan losses	19,700	16,154
Net interest income after provision for loan losses	291,237	193,134
<b>Other income</b>		
Gain on sale of loans	387,311	300,800
Service fee (loss) income	(16,081)	19,197
(Loss) gain on mortgage-backed securities, net	(30,853)	4,439
Fee and other income	76,525	57,736
Total other income	416,902	382,172
Net revenues	708,139	575,306
<b>Other expense</b>		
Operating expenses	424,605	344,058
Amortization of other intangible assets	852	1,088
Total other expense	425,457	345,146
Earnings before provision for income taxes and cumulative effect of a change in accounting principle	282,682	230,160
Provision for income taxes	111,379	86,767
Earnings before cumulative effect of a change in accounting principle	171,303	143,393
Cumulative effect of a change in accounting principle	—	(10,185)
Net earnings	\$171,303	\$143,393
Earnings per share before cumulative effect of a change in accounting principle		
Basic	\$ 3.10	\$ 2.47
Diluted	\$ 3.01	\$ 2.41
Earnings per share from cumulative effect of a change in accounting principle		
Basic	\$ —	\$ —
Diluted	\$ —	\$ —
Net earnings per share		
Basic	\$ 3.10	\$ 2.47
Diluted	\$ 3.01	\$ 2.41
Weighted average shares outstanding (in thousands)		
Basic	55,247	58,028
Diluted	56,926	59,592
Dividends paid per share	\$ 0.55	\$ —



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Dollars in thousands	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2000	62,176,316	\$818	\$ 920,205	\$ (2,603)	\$117,926	\$ —	\$ (308,453)	\$ 727,893
Common stock options exercised	1,417,038	14	19,984	—	—	—	—	19,998
Directors' and officers' notes receivable	—	—	(48)	—	—	—	—	(48)
Deferred compensation, restricted stock	62,189	—	2,318	—	—	—	—	2,318
401(k) contribution	73,453	1	1,876	—	—	—	—	1,877
Net gain on mortgage-backed securities available for sale	—	—	—	2,136	—	2,136	—	2,136
Net unrealized gain on derivatives used in cash flow hedges	—	—	—	1,037	—	1,037	—	1,037
Dividend reinvestment plan	1,524	—	37	—	—	—	—	37
Purchases of common stock	(3,364,254)	—	52,277	—	—	—	(78,775)	(78,775)
Issuance of warrants	—	—	—	—	—	—	—	52,277
Net earnings	—	—	—	—	116,388	116,388	—	116,388
Total comprehensive income	—	—	—	—	—	119,561	—	—
Balance at December 31, 2001	60,366,266	833	996,649	570	234,314	—	(387,228)	845,138
Common stock options exercised	617,243	7	9,803	—	—	—	—	9,810
Directors' and officers' notes receivable	—	—	(168)	—	—	—	—	(168)
Deferred compensation, restricted stock	—	—	—	—	—	—	—	—
Net gain on mortgage-backed securities available for sale	28,447	—	1,619	—	—	—	—	1,619
Net unrealized loss on derivatives used in cash flow hedges	—	—	—	476	—	476	—	476
Dividend reinvestment plan	—	—	—	(18,793)	—	(18,793)	—	(18,793)
Purchases of common stock	1,341	—	33	—	—	—	—	33
Net earnings	(6,183,811)	—	—	—	143,393	143,393	(131,543)	(131,543)
Total comprehensive income	—	—	—	—	—	125,076	—	—
Balance at December 31, 2002	54,829,486	840	1,007,936	(17,747)	377,707	—	(518,771)	849,965
Common stock options exercised	1,740,786	19	33,114	—	—	—	—	33,133
Directors' and officers' notes payments	—	—	502	—	—	—	—	502
Deferred compensation, restricted stock	—	—	—	—	—	—	—	—
Net loss on mortgage-backed securities available for sale	214,219	—	2,304	—	—	—	—	2,304
Net unrealized loss on derivatives used in cash flow hedges	—	—	—	(5,414)	—	(5,414)	—	(5,414)
Cash dividends paid - \$0.55 per common share	—	—	—	(3,293)	—	(3,293)	—	(3,293)
Purchases of common stock	(24,178)	—	—	—	(30,602)	—	(467)	(30,602)
Net earnings	—	—	—	—	171,303	171,303	—	171,303
Total comprehensive income	—	—	—	—	—	\$162,596	—	—
Balance at December 31, 2003	56,760,313	\$859	\$1,043,856	\$ (26,454)	\$518,408	\$162,596	\$ (519,238)	\$1,017,431



# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2003	2002
Dollars in thousands		
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 171,303	\$ 143,393
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Total amortization and depreciation	186,801	139,850
Provision for valuation adjustment of mortgage servicing rights	5,543	107,387
Gain on sale of loans	(387,311)	(300,800)
Loss (gain) on mortgage-backed securities, net	30,853	(4,439)
Provision for loan losses	19,700	16,154
Cumulative effect of a change in accounting principle	—	—
Net increase (decrease) in deferred tax liability	57,942	(6,953)
Net decrease (increase) in mortgage servicing rights	7,527	(376)
Net decrease (increase) in other assets and liabilities	87,573	(79,897)
Net cash provided by operating activities before activity for trading securities, loans held for sale and premiums paid for derivative instruments	179,931	14,319
Net sales (purchases) of trading securities	597,848	(227,708)
Net acquisitions of loans held for sale	(237,154)	(723,617)
Net (increase) decrease on premiums paid for derivative instruments	(93,043)	23,856
Net cash provided by (used in) operating activities	447,582	(913,150)
		(1,158,149)
<b>Cash flows from investing activities:</b>		
Net (purchases) sales of and payments from loans held for investment	(3,655,817)	(529,004)
Net purchases of and payments from mortgage-backed securities available for sale	(43,774)	(361,476)
Net increase in investment in Federal Home Loan Bank stock, at cost	(157,841)	(55,447)
Net purchases of property, plant and equipment	(102,600)	(37,425)
Net cash used in investing activities	(3,960,032)	(983,352)
		(243,317)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	1,210,271	(98,368)
Net increase in advances from Federal Home Loan Bank	2,212,914	722,170
Net (decrease) increase in borrowings	(53,498)	1,436,374
Net proceeds from issuance of trust preferred securities and warrants	58,962	—
Net payments from stock options and notes receivable	33,635	11,294
Cash dividends paid	(30,602)	—
Purchases of common stock	(467)	(131,543)
Net cash provided by financing activities	3,431,215	1,939,927
Net (decrease) increase in cash and cash equivalents	(81,235)	1,486,894
Cash and cash equivalents at beginning of period	196,720	43,425
Cash and cash equivalents at end of period	\$ 115,485	\$ 153,295
		\$ 153,295
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 262,518	\$ 268,842
Cash paid for income taxes	\$ 42,362	\$ 57,595
		\$ 2,777
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Net transfer of loans held for sale to loans held for investment	\$ 2,794,344	\$ 473,959
Net transfer of mortgage-backed securities available for sale to trading	\$ —	\$ 219,749
Net transfer of mortgage-servicing rights to trading securities	\$ 47,311	\$ 75,371
		\$ —



## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
IndyMac Bancorp, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of IndyMac Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2003 (not presented herein), and in our report dated January 23, 2004, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Los Angeles, California  
January 23, 2004

*Ernst & Young LLP*

## REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors  
IndyMac Bancorp, Inc.

We have examined management's assertion, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that IndyMac Bancorp, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2003 based on criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Company management has informed us that the scope of its assertion includes financial reporting presented in conformity with accounting principles generally accepted in the United States and the Thrift Financial Reports presented in conformity with the Office of Thrift Supervision Instructions for Thrift Financial Reports. Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion, that IndyMac Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2003, as described above, is fairly stated, in all material respects, based on criteria established in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Los Angeles, California  
January 23, 2004

*Ernst & Young LLP*



# REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Financial Statements

IndyMac Bancorp, Inc. (the Company) is responsible for the preparation, integrity and fair presentation of its published consolidated financial statements as of December 31, 2003, and for the year then ended. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include some amounts that are based on judgments and estimates of management.

## Internal Control Over Financial Reporting

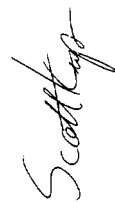
We, as members of management of the Company, are responsible for (i) preparing the consolidated financial statements of the Company, and (ii) establishing and maintaining effective internal control over financial reporting, including in connection with the preparation and reporting of the Company's consolidated financial statements presented in conformity with accounting principles generally accepted in the United States and the Office of Thrift Supervision Instructions for Thrift Financial Reports (TFR instructions). Internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms and actions taken to correct deficiencies as they are identified.

Because of the inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

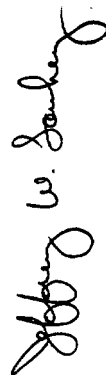
Management assessed the Company's internal control over financial reporting as it relates to its consolidated financial statements presented in conformity with accounting principles generally accepted in the United States and the TFR instructions as of December 31, 2003. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that, as of December 31, 2003 and based on the specified criteria, the Company maintained effective internal control over financial reporting, including in connection with the preparation and reporting of the Company's consolidated financial statements presented in conformity with accounting principles generally accepted in the United States and the TFR instructions.

  
Michael W. Perry  
Chairman and  
Chief Executive Officer

Scott Keys  
Executive Vice President and  
Chief Financial Officer



Jeffrey W. Lankey  
Senior Vice President and  
Chief Accounting Officer



## Forward-Looking Statements

Certain statements contained herein may be deemed to be forward-looking statements within the meaning of the federal securities laws. The words "anticipate," "believe," "estimate," "expect," "project," "plan," "forecast," "intend," and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including the effect of economic and market conditions; the level and volatility of interest rates; the Company's hedging strategies; hedge effectiveness and asset and liability management; the accuracy of subjective estimates used in determining the fair value of financial assets of IndyMac; credit risks with respect to our loans and other financial assets; the impact of changes in financial accounting standards; the actions undertaken by both current and potential new competitors; the availability of funds from IndyMac's lenders, and from loan sales and securitizations, to fund mortgage loan originations, and portfolio investments; the execution of IndyMac's growth plans and ability to gain market share in a significant market transition; the impact of current, pending or future legislation and regulations; and other risk factors described in the reports that IndyMac files with the Securities and Exchange Commission, including this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and its reports on Form 8-K.

January 23, 2004



# THINK LEADERSHIP.

## Directors

### INDYMAC BANCORP & INDYMAC BANK

Michael W. Perry

Chairman of the Board and

Chief Executive Officer

James R. Ukropina, Esq. <sup>1,3,4,5,7</sup>

Presiding Director

Chief Executive Officer

Directions, LLC

Louis E. Caldera <sup>3,6</sup>

President, University of New Mexico

Lyle E. Granley <sup>2,6</sup>

Senior Economic Adviser

Schwab Washington Research Group

Washington, D. C.

Hugh M. Grant <sup>1,4,6,7</sup>

Retired Vice Chairman

Ernst & Young, LLP

Patrick C. Haden <sup>4,6</sup>

General Partner

Riordan, Lewis & Haden

Equity Investments

Terrance G. Hodel <sup>2,3,6</sup>

Independent Director

Robert L. Hunt II <sup>1,2,3,6,7</sup>

Independent Director

### INDYMAC BANK

Lydia H. Kemard <sup>3,6</sup>

Independent Director

U.S. Senator John Seymour (ret.) <sup>2,5,6</sup>

Chief Executive Officer

Southern California Housing

Development Corporation

Directors Emeritus

Thomas J. Kearns

Frederick J. Napolitano

Executive Committee

Michael W. Perry

Chairman and Chief Executive Officer

Scott Keys

Executive Vice President

Chief Financial Officer

S. Blair Abernathy

Secondary Marketing

Ashwin Adarkar

Executive Vice President

Corporate Strategy and Marketing

Raymond D. Matsumoto

Executive Vice President

Enterprise Process and Technology

Roger H. Molvar

Chief Executive Officer

IndyMac Consumer Bank

Grosvenor G. Nichols

Executive Vice President

Enterprise Risk Management

R. Patterson Jackson

Chief Executive Officer

Home Equity Division

John D. Olinski

Executive Vice President

Chief Investment Officer

Thomas H. Potts

Executive Vice President

Corporate Finance

Richard H. Wohl

Chief Executive Officer

IndyMac Mortgage Bank

## BOARD COMMITTEES & DESIGNATIONS

<sup>1</sup> Audit Committee

<sup>2</sup> Asset and Liability Committee

<sup>3</sup> Management Development and

Compensation Committee

<sup>4</sup> Corporate Nominating and

Governance Committee

<sup>5</sup> Community Lending, Compliance

and Technology Committee

<sup>6</sup> Independent Director

<sup>7</sup> Audit Committee Financial Expert



Executive Vice Presidents

James Banks  
Jill I. Barnes  
Drew Buccino  
Gary D. Clark  
Kevin D. Cochrane  
Sherry M. DuPont  
Anthony L. Ebers  
James A. Fraser  
Gulshan K. Garg  
Edward L. Goddin  
Carmella L. Grahm  
Charles T. Holroyd  
Kenneth R. Horner  
Patrick A. Hymel  
Stephanie S. Irely  
James R. Jerwers  
J. Mark Kempton  
Richard C. Lieber

Pamela K. Marsh  
Michelle Minier  
Mark C. Nelson  
James D. Nichols, Jr.  
Joel M. Packer  
Dennis A. Shirley  
Frank M. Sillman  
Scott VanDellen  
Jules Vogel  
Charles A. Williams  
Senior Vice Presidents  
Brent Anderson  
David M. Balsam  
William B. Barber  
Wendy Cariello  
Brian N. Carter  
Mohan Chhabra  
Christina Ching  
Marianne Churney

Joanne Droge  
Bruce Duclos  
Kathy L. Edwards  
Terrin U. Enssle  
Brent H. Frost  
Melissa K. Gerard  
Molly Jo Graham  
Samir Grover  
Steven A. Haegelin  
Lawrence V. Holguin  
Leonard Israel II  
Kurt G. Johnson  
Richard S. Koon II  
John Krantz  
Jeffrey W. Lankey  
John Lawrence  
Don E. Linde  
Karen M. Mastro  
Susan E. McGovney

Thomas E. McKnight  
Ellen F. Mochizuki  
Virginia Morse  
Mark A. Mozilo  
Francisco Nebot  
Sharad Nishith  
Barbara Perez  
Timothy D. Ray  
John J. Reed  
Michael Rich  
Maria A. Roa  
Andrew J. Sciandra  
Kenneth Shellem  
Richard L. Sommer  
Robert Suarez  
Walter Tharp  
Thomas Wagner  
Raedelle A. Walker  
Marie-Therese Wynne



## CORPORATE INFORMATION

### Independent Accountants

Ernst & Young LLP  
725 South Figueroa Street  
Los Angeles, CA 90017

### Registrar and Transfer Agent

The Bank of New York  
Investor Relations Department  
P.O. Box 11258  
Church Street Station  
New York, New York 10286-1258  
(800) 524-4458

### Mortgage Products

If you are in the process of purchasing a new home or interested in refinancing your current mortgage or obtaining a home equity line of credit, please contact us at (888) 321-FUND® or apply online at our direct lending website [www.IndyMacBank.com](http://www.IndyMacBank.com).

### Deposit Products and Services

IndyMac Bank offers competitive Web-enhanced deposit products. For more information, please contact us at (800) 998-2900 or online at [www.IndyMacBank.com](http://www.IndyMacBank.com).

### Stock Purchase Plan

IndyMac Bancorp has an online direct stock purchase plan that allows for the purchase of IndyMac shares online. Further information on this plan is available at <http://www.IndyMacBank.com/Investors/Shareholders>.

### Dividend Policy

IndyMac's Board of Directors reestablished a quarterly dividend in 2003, declaring a \$0.10 dividend on January 29, 2003 and again on April 29, 2003. Subsequently, the dividend was raised to \$0.15 in the third quarter and \$0.20 in the fourth quarter, for a total per share dividend of \$0.55 for 2003. The Company's goal is to continue increasing the dividend on a quarterly basis, pursuant to approval by the Board of Directors. On January 29, 2004, the Company declared a \$0.25 dividend for the first quarter of 2004.

### Form 10-K

For shareholders and others interested in information beyond that shown in this report, IndyMac Bancorp's Annual Report on Form 10-K for 2003, required to be filed with the Securities and Exchange Commission, may be obtained without charge at our website at [www.IndyMacBank.com](http://www.IndyMacBank.com), or by writing to:

IndyMac Bancorp  
Investor Relations  
155 North Lake Avenue  
Pasadena, California 91101-7211

### Analyst Coverage

Crowell, Weedon & Company  
Friedman Billings Ramsey  
Jefferies & Company, Inc.  
JMP Securities  
Keefe, Bruyette & Woods, Inc.  
Lehman Brothers

### Morgan Stanley

Portales Partners, LLC  
Roth Capital Partners, Inc.  
Standard & Poor's Corporation

### Website Information

For more corporate information please visit us at <http://www.IndyMacBank.com/>

Investors/Shareholders.  
> Officers & Directors  
> Corporate Governance  
> Stock Quote  
> Fact Sheet  
> Annual Reports  
> Quarterly Reports  
> SEC Filings  
> Stock Charts  
> Fundamentals  
> Earnings Estimates  
> Analyst Coverage  
> Stock Purchase Plan  
> Press Releases  
> Presentations  
> Calendar of Events  
> Audio Archives  
> FAQs  
> Information Requests  
> E-Mail Alerts  
Or call us at (800) 669-2300  
ext. 5019 or (626) 535-5019

### Stock Information

IndyMac's common stock is traded on the New York Stock Exchange under the symbol NDE (NYSE: NDE).

The following table sets forth the high and low sales prices (as reported by Bloomberg Financial Services) for the common stock for the years ended December 31, 2003 and 2002.

Quarter	High	Low	Dividends
<b>2003</b>			
1	\$20.51	\$17.65	\$0.10
2	26.96	19.00	0.10
3	27.33	21.17	0.15
4	31.97	23.20	0.20
<b>2002</b>			
1	\$25.95	\$21.97	\$ —
2	26.89	22.16	—
3	23.85	17.55	—
4	20.20	16.14	—

As of February 23, 2004, 57,396,048 shares of IndyMac's common stock were held by 1,853 shareholders of record.

### Annual Meeting

The annual meeting of shareholders will be held at 9:00 a.m. (PDT) on Wednesday, April 28, 2004 at the IndyMac Mortgage Bank Headquarters at 3465 E. Foothill Blvd., Pasadena, CA 91107.



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**Form 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2003

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 1-8972

**INDYMAC BANCORP, INC.**  
*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation)*

**155 North Lake Avenue, Pasadena, California**  
*(Address of principal executive offices)*

**95-3983415**

*(I.R.S. Employer Identification No.)*

**91101-7211**  
*(Zip Code)*

**Registrant's telephone number, including area code:**  
**(800) 669-2300**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 Par Value (including related preferred stock purchase rights)	New York Stock Exchange
WIRES Units (Trust Preferred Securities and Warrants)	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

[None.]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

Based on the closing price for shares of Common Stock as of June 30, 2003, the aggregate market value of Common Stock held by non-affiliates of the registrant was approximately \$1,398,990,175. For the purposes of the foregoing calculation only, in addition to affiliated companies, all directors and executive officers of the registrant have been deemed affiliates.

As of February 23, 2004, 57,396,048 shares of IndyMac Bancorp, Inc. Common Stock, \$.01 par value per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Proxy Statement for the 2004 Annual Meeting — Part III

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**INDYMAC BANCORP, INC.**  
**2003 FORM 10-K ANNUAL REPORT**  
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**2003 FORM 10-K ANNUAL REPORT**

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## PART I

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements regarding our financial condition, results of operations, plans, objectives and future performance and business. Forward-looking statements typically include the words "anticipate," "believe," "estimate," "expect," "project," "plan," "forecast," "intend," and other similar expressions. These statements reflect our current views with respect to future events and financial performance. They are subject to risks and uncertainties, including, among others, those identified in the "Key Operating Risks" and "Risk Factors That May Affect Future Results" discussions below, which could cause future results to differ materially from historical results or from the results anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates or as of the date hereof if no other date is identified. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### ITEM 1. BUSINESS

We are the holding company for IndyMac Bank, F.S.B., a Federal Deposit Insurance Corporation ("FDIC") insured savings and loan association. IndyMac Bank® is the largest savings and loan in Los Angeles County and the 14th largest nationwide, based on assets. IndyMac is in the business of designing, manufacturing, and distributing cost-efficient financing for the acquisition, development, and improvement of single-family homes. IndyMac also provides financing secured by single-family homes to facilitate consumers' personal financial goals, and strategically invests in single-family related assets. We facilitate the acquisition, development, and improvement of single-family homes through our award-winning e-MITS® (Electronic Mortgage Information and Transaction System) platform that automates underwriting, risk-based pricing and ratelocking on a nationwide basis via the Internet. IndyMac's mortgage products and services are tailored to meet the needs of both consumers and businesses.

IndyMac (then known as Countrywide Mortgage Investments, Inc.) was founded as a passive mortgage real estate investment trust ("REIT") in 1985 and transitioned its business model to become an active, operating mortgage lender in 1993. In response to the global liquidity crisis in the fourth quarter of 1998 in which many non-regulated financial institutions, mortgage lenders and mortgage REITs were adversely impacted or did not survive, we determined that it would be advantageous to become a depository institution. The depository structure provides significant advantages in the form of diversified financing sources, the retention of capital to support growth and a strong platform for the origination of mortgages. Accordingly, effective January 1, 2000 we terminated our status as a REIT and converted to a fully taxable entity, and, on July 1, 2000, we acquired SGV Bancorp, Inc. ("SGVB"), which then was the parent of First Federal Savings and Loan Association of San Gabriel Valley, a federal savings association. We contributed substantially all of our assets and operations to the subsidiary savings association, which we renamed IndyMac Bank, F.S.B. ("Bank").

References to "IndyMac Bancorp" or the "Parent Company" refer to the parent company alone, while references to "IndyMac," or the "Company" refer to the parent company and its consolidated subsidiaries.

### BUSINESS MODEL

IndyMac's hybrid thrift/mortgage banking business model is the framework for our corporate structure. Our primary business is the origination of and investment in single-family residential mortgage assets. A mortgage banking company originates mortgage loans for sale to investors, and services such loans on an ongoing basis for the investors. As such, a mortgage banking company has a higher asset turnover rate than a traditional savings and loan, and generates a higher portion of its income from gains on the sale of loans and servicing fees, and a lower portion from net interest income. Mortgage loan production can also be held on the balance sheet in the form of loans and mortgage backed securities, similar to a more traditional savings and



loan, providing a source of revenues that is generally counter-cyclical to mortgage banking revenues. These revenues consist primarily of interest income and servicing fees. IndyMac is strategically focused on increasing the relative size of its portfolios of prime mortgage and home equity loans, as well as mortgage servicing rights, to achieve greater balance between its mortgage banking activities and its core investing activities. We believe that our investing activities will increasingly serve to stabilize IndyMac's core income.

The mortgage market is a huge industry, with mortgages outstanding growing an average of 7 to 8 percent annually over the last several decades. According to the National Mortgage News, we were one of the top 19 originators of mortgage loans in the United States. During the fourth quarter of 2003, our market share approximated 0.8% based on mortgage loan origination volume of \$29.2 billion in 2003. IndyMac's long-term strategy focuses on gaining a larger share of the mortgage origination market without compromising our profitability goals. We plan to accomplish this by leveraging our mortgage-banking infrastructure, increasing our marketing and sales efforts, and expanding our geographic presence. To complement our mortgage banking activities, we will continue to add high quality single-family residential and home equity loans to the investment portfolio to help mitigate fluctuations in earnings during the mortgage origination cycle.

We offer many types of home mortgage products using a technology-based approach, leveraged across multiple products, channels and customers. We serve a wide range of customers, including consumers, mortgage brokers, mortgage bankers, community financial institutions, homebuilders and real estate professionals. The environment of historically low interest rates over the past three years has been very favorable for mortgage lenders who effectively hedged their mortgage servicing rights. Consumers continued to refinance existing loans and historically low mortgage rates opened the door for home ownership to many first time buyers. By late 2003, the market began transitioning back to more traditional levels. The Mortgage Bankers Association estimates that production fell by 49% in the fourth quarter of 2003 compared to the third quarter of 2003 and that 2004 origination volume will decrease 47% to \$2 trillion, compared to \$3.8 trillion in 2003. While our forecast includes a reduction in origination volume in 2004, we do not expect to experience a decrease as significant as other mortgage bankers due to our focus in less interest rate sensitive mortgage products and mortgage channels with strong ties to the purchase market. Looking ahead, we expect our earnings to remain relatively flat in 2004 compared to 2003, but then increasing to approximately \$4.00 per share in 2005. We would expect continued solid EPS growth thereafter given our historical compounded annual EPS growth rate from December 31, 1992 through December 31, 2003 of 28%. These earning estimates do not include the impact of the potential change in rate lock accounting discussed in "Item 7, Operations, Mortgage Banking Activities."

## **MORTGAGE BANKING ACTIVITIES**

We offer single-family residential mortgage products in all 50 states using a technology-based approach. Our ability to leverage our technology investment over multiple channels, products and customers creates an efficient, low-cost operating platform. Our Internet-based, e-MITS platform is an automated loan submission, underwriting, and risk-based pricing system that allows any of our mortgage loan customers, both business and consumer, to conduct business with us electronically through our mortgage loan Internet sites. During 2003, 72% of the loan balance of mortgage loans we acquired was processed through e-MITS.

We provide our mortgage banking customers with a range of choices designed to meet their financial needs. Our broad product line includes adjustable-rate mortgages ("ARMs") offering borrowers multiple payment options, and fixed-rate mortgages, both conforming and non-conforming (a conforming loan is one that falls within the maximum loan size and meets other criteria for inclusion in the guarantee programs of Fannie Mae or Freddie Mac). We also offer subprime loans, construction financing for single-family residences provided directly to individual consumers, builder construction financing facilities for larger residential subdivision loans and home equity lines of credit ("HELOCs").

When we have accumulated a sufficient volume of loans with similar characteristics, generally \$100 million to \$500 million in principal amount, we resell the loans in the secondary market. The length of time between when we purchase a mortgage loan and when we sell or securitize the mortgage loan generally ranges from 10 to 90 days, depending on factors such as loan volume by product type and market fluctuations in the



prices of mortgage-backed securities. One of our strategies is to reduce the period of time we hold loans before they are sold. On average during 2003, we sold loans within 50 days of purchase or origination. The faster loan turnover rate provides for a more efficient use of our capital and reduces hedge costs, which results in a higher return on average equity.

We sell the majority of the mortgage loans that we originate or purchase (79% in 2003). The loans are sold on a non-recourse basis, but we make certain representations and warranties concerning the loans. We generally retain the servicing rights with respect to loans sold to the government sponsored enterprises, or GSEs (primarily Fannie Mae and Freddie Mac). The credit losses on these loans are absorbed by the GSEs. We pay guarantee fees to the GSEs to compensate them for their assumption of credit risk. We have recently begun selling loans to the Federal Home Loan Bank of San Francisco ("FHLB"), for which we retain the servicing rights. Loans sold to the FHLB typically contain a risk-sharing arrangement in which we benefit from the performance of the loans sold. This benefit is typically less than 10 basis points of the loan amount sold and is recorded as a residual and included as a component of securities classified as trading.

We also sell loans through private-label securitizations. Loans sold through private-label securitizations consist primarily of prime non-conforming loans and subprime loans. The securitization process involves the sale of the loans to one of our wholly owned bankruptcy remote special purpose entities which then sells the loans to a separate, transaction-specific securitization trust in exchange for cash and certain trust interests that we retain. The securitization trust issues and sells undivided interests to third party investors that entitle the investors to specified cash flows generated from the securitized loans. These undivided interests are usually represented by certificates with varying interest rates and are secured by the payments on the loans acquired by the trust, and commonly include senior and subordinated classes. The senior class securities are usually rated "AAA" by at least two of the major independent rating agencies and have priority over the subordinated classes in the receipt of payments. We have no obligation to provide funding support to either the third party investors or securitization trusts. The third party investors or the securitization trusts have no recourse to our assets or us and have no ability to require us to repurchase their securities. We do make certain representations and warranties concerning the loans, such as lien status or mortgage insurance coverage, and if we are found to have breached a representation or warranty we could be required to repurchase the loan from the securitization trust. We do not guarantee any securities issued by the securitization trusts. The securitization trusts represent "qualified special purpose entities" which meet the legal isolation criteria of Statement of Financial Accounting Standards No. 140 "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140") and are therefore not consolidated for financial reporting purposes. To a lesser extent, we also sell loans on a whole-loan basis to institutional investors who typically acquire the related loan servicing rights.

In addition to the cash the securitization trust pays for the loans, we often retain certain interests in the securitization trust as payment for the loans. These retained interests may include mortgage servicing rights ("MSRs"), AAA-rated interest-only securities, AAA-rated senior securities, subordinated classes of securities, residual securities, cash reserve funds, or an overcollateralization account. Other than AAA-rated interest-only securities, the AAA-rated senior securities and the MSRs, these retained interests are subordinated and serve as credit enhancement for the more senior securities issued by the securitization trust. We are entitled to receive payment on most of these retained interests only after the third party investors are repaid their investment plus interest and there is excess cash in the securitization trust. Our ability to obtain repayment of our residual interests depends solely on the performance of the underlying mortgage loans. Material adverse changes in performance of the loans, including actual credit losses and prepayment speeds, may have a significant adverse effect on the value of these retained interests.

We usually retain the servicing rights for the securitized mortgage loans, as discussed in the description of servicing operations below under the caption "Loan Servicing Operations." As a servicer, we are entitled to receive a servicing fee equal to a specified percentage of the outstanding principal balance of the loans. This servicing fee is calculated and payable on a monthly basis. We may also be entitled to receive additional servicing compensation, such as late payment fees or prepayment penalties. Our servicing fees have priority in payment over the senior classes of securities issued by the securitization trusts.



In addition to securitization trusts, from time to time we use Net Interest Margin ("NIM") trusts to securitize our interest in residual securities from prior or recently completed securitization transactions. NIM trusts issue bonds to outside investors secured by the residual securities we contribute to the trusts. The cash proceeds from the sale of the NIM bonds to investors are paid to us by the NIM trusts as payment for the residual securities. The NIM bonds are obligations of the NIM trusts and are collateralized only by the residual securities. We are not obligated to make any payments on the bonds. These entities represent qualified special purpose entities and are therefore not consolidated for financial reporting purposes in accordance with SFAS 140. At inception, the outside investors have the majority interest in the fair value of the residual securities. We receive cash flows from our retained interests in the NIM trusts once the bonds issued to the investors are fully paid off. At December 31, 2003, these NIM trusts held assets valued at \$46.9 million and our retained interests in these NIM trusts are valued at \$16.0 million. Our retained interests in the NIM trusts are included as a component of securities classified as trading securities on our consolidated balance sheets.

Our mortgage banking revenue consists primarily of gain on the sale of loans, net interest income, and fee income associated with the loans held for sale. We sell our loans through three distribution channels in the secondary market: GSEs, private-label securitizations, and whole loan sales. Additionally, we transfer loans to our Investment Portfolio, which currently consists primarily of ARM and hybrid ARM loans.

Because many of our mortgage banking activities are tied to the purchase and sale of single-family residences, our business is subject to some seasonal volatility. Typically, loan originations tend to be higher in summer months and lower in winter months.

## INVESTING ACTIVITIES

### *Investments*

In an effort to generate continuing earnings that are more stable and complement our mortgage banking activities, we invest in residential mortgage loans, mortgage securities, and MSRs either retained in connection with our mortgage banking activities or purchased in the secondary mortgage market. The strategy of our Investment Portfolio Group is to: 1) leverage and scale infrastructure with prudent mortgage related asset growth to stabilize and diversify company-wide earnings, targeting a return on equity ranging from 15% to 20% and 2) hedge the interest rate and prepayment risks attendant with servicing-related assets.

Mortgage loans held for investment are generally originated or acquired through our mortgage banking activities and transferred to the Investment Portfolio Group. Held for investment loans may also be acquired from third party sellers. Such loans are typically prime loans as the majority of the subprime loans originated are securitized in private transactions or sold to GSEs. The Investment Portfolio Group invests in loans for which it can earn an acceptable return on equity. We are currently investing primarily in ARMs in order to minimize interest rate risk, and to a lesser extent, loan products which we believe the market does not properly price. We may also retain a portion of the loans acquired through our exercise of clean-up calls as these loans are generally high quality, seasoned loans that generate an above-market yield.

A substantial portion of the servicing related assets retained by the Investment Portfolio Group are generated in connection with issuances of private-label securities and agency loan sales by our mortgage banking operations. Retained assets typically include MSRs and, to a lesser degree, AAA-rated and agency interest-only securities, AAA-rated senior securities, non-investment grade securities and residuals. In addition to retaining assets from our private-label securitizations and agency loan sales, the Investment Portfolio Group also purchases mortgage-backed securities issued by other lenders in the secondary mortgage market. Our investment grade securities include AAA-rated and agency interest-only securities, agency mortgage-backed securities and debentures, and other mortgage-backed securities. In addition to hedging the AAA-rated and agency interest-only securities portfolio, the Investment Portfolio Group also manages and hedges our investment in MSRs. Substantially all MSRs were created in connection with our mortgage banking activities and include both primary and master servicing, as further discussed below. However, we may purchase MSRs from other servicers if we believe the investment will generate appropriate returns.



The primary sources of revenue for the Investment Portfolio Group are net interest income on loans and securities, and service fee income from MSRs. We also were able to recognize significant revenue from gain on sale of loans acquired through our clean up call and retention program during 2003. Valuation changes related to MSRs (subject to lower of amortized cost or fair value limitations), AAA-rated and agency interest-only securities and their related hedges are also recognized through earnings. Periodically, trading gains or losses may also be recognized through earnings, although trading is not a core Investment Portfolio Group activity.

### *Loan Servicing Operations*

At December 31, 2003, through our Home Loan Servicing operation in Kalamazoo, Michigan, we serviced \$36.9 billion of mortgage loans, of which \$6.1 billion were owned by us. The servicing portfolio includes servicing for prime and subprime loans, HELOCs, manufactured housing loans and home improvement loans.

Servicing of mortgage loans includes: collecting loan payments; responding to customers' inquiries; accounting for principal and interest; holding custodial (impound) funds for payment of property taxes and insurance; making physical inspections of the mortgaged property, as necessary; counseling delinquent mortgagors; modifying and refinancing loans; supervising foreclosures and liquidation of foreclosed property; performing required tax reporting; and performing other loan administration functions necessary to protect investors' interests and comply with applicable laws and regulations. Servicing operations also include remitting loan payments, less servicing fees, to trustees and, in some cases, advancing delinquent borrower payments to investors, subject to a right of reimbursement.

## **SEGMENTS**

IndyMac is structured to achieve synergies among its operations and to enhance customer service, operating through its three main segments, IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group. The common denominator of the Company's business is providing consumers with single-family residential mortgages through relationships with each segment's core customers via the channels in which each operates. IndyMac Mortgage Bank provides consumers with mortgage products through relationships with the Company's business customers — mortgage brokers, mortgage bankers, community financial institutions, real estate professionals and homebuilders. IndyMac Consumer Bank provides the platform for the mortgage and deposit services that IndyMac offers directly to consumers. The Investment Portfolio Group serves as the main link to customers whose mortgages we service. Through its investments in single-family residential ("SFR") mortgages, mortgage-backed securities and MSRs, the Investment Portfolio Group generates core spread and fee income and provides critical support to IndyMac's mortgage lending operations.

Our business relationship customers include customers in the following channels: business-to-business ("B2B"), business-to-realtor ("B2R"), consumer construction (Home Construction Lending, or "HCL") and our homebuilder division ("HBD"). Our direct to consumer channels include business-to-consumer ("B2C"), HELOC division and retail banking.

### **INDYMAC MORTGAGE BANK**

#### **Mortgage Professionals (B2B)**

Our B2B channel was responsible for 62% of our total mortgage production during 2003. B2B acquires mortgage loans through three primary channels: wholesale, correspondent, and conduit, working through mortgage brokers, mortgage bankers and financial institutions. When acquiring mortgage loans, we generally purchase the rights to "service" the mortgage loans (as described below). When we sell the loans, we may either retain the related servicing rights and service the loans through our Home Loan Servicing division or sell those rights. See "Loan Servicing Operations" above. B2B's production volume includes both purchases



and originations. Originations are defined as loans that are generated by the mortgage broker, but closed in our name (also referred to as "table funded" loans).

B2B has a centralized group that targets customers based on their loan production volume, product mix and projected revenue to us. Our B2B sales force is responsible for maintaining and increasing loan production from these customers by marketing B2B's strengths, which include a "one stop shop" for all products, competitive pricing and response time efficiencies in the loan purchase process through our e-MITS underwriting process and high customer service standards.

During 2003, to continue our emphasis on increasing production capacity and geographic penetration to build market share, the B2B division opened new regional centers in Dallas, Texas and Seattle, Washington. With these two new centers, the B2B division currently has seven regional centers. Looking ahead, we plan to open additional centers as a way of increasing geographic penetration to gain market share in target markets, improving customer service, and improving operational efficiencies.

### **Realtors (B2R)**

Through our LoanWorks® brand, we serve real estate professionals who are interested in cross-selling mortgage loans as an additional service to their home purchase clients. LoanWorks.com allows real estate agents to utilize our Web-based e-MITS technology as their in-house mortgage processing center and their online origination management system.

B2R's marketing focus on real estate agents includes participation in local real estate forums, trade shows, seminars and continuing education courses aimed at individual real estate agents, and advertising in national and regional trade publications. Although B2R is currently small in comparison to the B2B and B2C divisions, we believe the B2R channel provides a growth opportunity as it leverages our existing technology and infrastructure and recognizes the important role that Realtors play in the home purchase mortgage process.

### **Home Construction Lending (HCL)**

Our Home Construction Lending division offers a variety of residential construction programs and lot financing through our relationship channels and directly to consumers. Through our streamlined e-MITS online application process, HCL offers a single-close construction-to-permanent loan that provides borrowers with the funds to build a primary residence or vacation home. HCL customers have convenient online access to construction funds and loan information at any time. When the home is completed, the loan automatically converts to a permanent 30- or 15-year loan, which we typically sell, without any additional costs or closing documents required. The product represents a hybrid activity between our portfolio lending and our mortgage banking activities.

### **Homebuilder (HBD)**

The primary focus of our homebuilder division is to generate single-family residential mortgage loans through our business of lending to subdivision lenders. Our strategy includes developing relationships with homebuilders through direct customer contact and program presentations, as well as drawing upon existing construction lending builder relationships and industry contacts. Similar to our B2R strategy, the generation of mortgage loans through homebuilders provides a strong growth opportunity in the home purchase loan market.

We also provide construction financing for residential subdivision developers through this division, with a focus on those homebuilders that have committed to utilizing our e-MITS technology to provide permanent mortgage loans to their customers when they sell the completed residence. A substantial portion of our builder construction loans is secured by corporate or personal guarantees of the builders as well as the real estate. Builder construction loans are typically based on prime interest rates.



## **INDYMAC CONSUMER BANK**

### **Consumer Direct (B2C)**

The B2C channel originates mortgage loans on a centralized basis using multiple marketing channels, including direct originations through our Web site, which is supported by our e-MITS technology, indirect Internet leads provided by various multi-lender or Internet-based marketing firms, customer referral and portfolio refinance leads, direct mail and telemarketing, affinity relationships, and community lending through our 10 retail bank branches.

Our B2C website offers a wide range of home loan products directly to consumers nationwide. This site enables consumers to apply for a mortgage loan, obtain loan approvals, lock in an interest rate and receive a printable approval letter, all online, and all within minutes. The website also features online loan status information, daily rate comparisons to major competitors, and a quick mortgage rate pricing tool. Through B2C's telemarketing operations and our Southern California retail banking branch network, loan consultants counsel consumers with respect to the loan application process, process loan applications utilizing our e-MITS technology and make lending decisions.

### **Southern California Retail Banking**

Through our website at [www.indymacbank.com](http://www.indymacbank.com), consumers can access their accounts 24-hours a day, seven days a week. Online banking allows customers to access their accounts, view balances, transfer funds between accounts, view transactions, download account information and pay their bills conveniently from any computer terminal. Consumers can also conduct transactions through our telebanking operation or in one of our Southern California branches. Our deposit products include regular savings accounts, demand deposit accounts, money market accounts, certificate of deposit accounts and individual retirement accounts.

### **HELOC**

IndyMac's HELOC division specializes in providing second mortgages and HELOCs nationwide through direct marketing to homeowners. With a streamlined application process and competitive pricing, this division provides homeowners the ability to easily tap the excess equity in their homes for a variety of uses. With the HELOC product, homeowners have convenient access using equity checks or a Visa® credit card. IndyMac's home equity products are available across all IndyMac's mortgage channels to new and existing mortgage or banking customers.

### **INVESTMENT PORTFOLIO GROUP**

Our Investment Portfolio Group complements the Company's mortgage banking activities and serves to diversify the Company's revenue stream through its investments. The Investment Portfolio Group's assets are broken down into four main groups:

- (1) Whole loans, including all single-family residential loans held for investment other than discontinued products.
- (2) Mortgage servicing-related assets, which include the following:
  - MSR's, interest-only strips and residual securities,
  - securities held as hedges of such assets, including principal-only securities, agency debentures, U.S. treasury bonds, and investment and non-investment grade securities, and
  - loans held for sale that have been acquired through clean-up calls or through the Investment Portfolio Group's customer retention programs.
- (3) Mortgage-backed securities, which include AAA-rated agency and private label MBS.
- (4) Discontinued products, which include home improvement and manufactured housing loans.



In addition to generating revenue for the Company, the Investment Portfolio Group performs the mortgage servicing function. At December 31, 2003, total assets of our Investment Portfolio Group were \$8.1 billion, of which 20% were mortgage servicing-related assets, 60% were whole loans, 19% were mortgage-backed securities, and 1% were discontinued products. Our policy is that all of our Investment Portfolio Group assets, including assets acquired from IndyMac Mortgage Bank or IndyMac Consumer Bank, must meet or exceed minimum targeted return requirements. In addition to the Investment Portfolio Group's investments, certain investing activities also take place in the IndyMac Mortgage Bank and IndyMac Consumer Bank segments. These activities generate assets which include the investment in construction loans and HELOCs.

For further information on the revenues earned and expenses incurred by each of our segments, refer to "Note 2 — Segment Reporting" included in the Company's consolidated financial statements incorporated herein.

## **REGULATION AND SUPERVISION**

### **GENERAL**

As a savings and loan holding company, IndyMac Bancorp is subject to regulation by the Office of Thrift Supervision ("OTS") under the savings and loan holding company provisions of the federal Home Owners' Loan Act ("HOLA"). As a federally chartered and insured savings association, we are subject to regulation, supervision and periodic examination by the OTS, which is the primary federal regulator of savings associations, and the FDIC, in its role as federal deposit insurer. The primary purpose of regulatory examination and supervision is to protect depositors, financial institutions and the financial system as a whole rather than the shareholders of financial institutions or their holding companies. The following summary is not intended to be a complete description of the applicable laws and regulations or their effects on us, and it is qualified in its entirety by reference to the particular statutory and regulatory provisions described.

### **REGULATION OF INDYMAC BANK**

#### ***General***

We are required to file periodic reports with the OTS concerning our activities and financial condition. The OTS has substantial enforcement authority with respect to savings associations, including authority to bring enforcement actions against a savings association and any of its "institution-affiliated parties," which term includes directors, officers, employees, controlling shareholders, agents and other persons who participate in the conduct of the affairs of the institution. The FDIC has "backup" enforcement authority over us and has the power to terminate a savings association's FDIC deposit insurance. In addition, we are subject to regulations of the Federal Reserve Board relating to equal credit opportunity, electronic fund transfers, collection of checks, truth in lending, truth in savings, and availability of funds for deposit customers.

#### ***Qualified Thrift Lender Test***

Like all savings associations, we are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on our operations, including the activities restrictions applicable to multiple savings and loan holding companies, restrictions on our ability to branch interstate and IndyMac Bancorp's mandatory registration as a bank holding company under the Bank Holding Company Act of 1956. A savings association satisfies the QTL test if: (i) on a monthly average basis in at least nine months out of each twelve month period, at least 65% of a specified asset base of the savings association consists of loans to small businesses, credit card loans, educational loans, or certain assets related to domestic residential real estate, including residential mortgage loans and mortgage securities; or (ii) at least 60% of the savings association's total assets consist of cash, U.S. government or government agency debt or equity securities, fixed assets, or loans secured by deposits, real property used for residential, educational, church, welfare, or health purposes, or real property in certain urban renewal areas. We are currently, and expect to remain, in compliance with QTL standards.



### ***Regulatory Capital Requirements***

OTS capital regulations require savings associations to satisfy three capital ratio requirements: tangible capital, Tier 1 core (leverage) capital, and risk-based capital. In general, an association's tangible capital, which must be at least 1.5% of adjusted total assets, is the sum of common shareholders' equity adjusted for the effects of other comprehensive income ("OCI"), less goodwill and other disallowed assets. An association's ratio of Tier 1 core capital to adjusted total assets (the "core capital" or "leverage" ratio) must be at least 3% for the most highly rated associations and 4% for others. Higher capital ratios may be required if warranted by the particular circumstances, risk profile or growth rate of a given association. Under the risk-based capital requirement, a savings association must have total capital (core capital plus supplementary capital) equal to at least 8% of risk-weighted assets. Tier 1 capital must represent at least 50% of total capital and consists of core capital elements, which include common shareholders' equity, qualifying noncumulative, nonredeemable perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries, but exclude goodwill and certain other intangible assets. Supplementary capital mainly consists of qualifying subordinated debt and portions of allowance for loan losses.

The above capital requirements are viewed as minimum standards by the OTS. The OTS regulations also specify minimum requirements for a savings association to be considered a "well-capitalized institution" as defined in the "prompt corrective action" regulation described below. A "well-capitalized" savings association must have a total risk-based capital ratio of 10% or greater, and a leverage ratio of 5% or greater. Additionally, to qualify as a "well-capitalized institution," a savings association's Tier 1 risk-based capital, defined as core capital plus supplementary capital less portions of the association's allowance for loan losses, must be equal to at least 6% of risk-weighted assets. We currently meet, and expect to continue to meet, all of the requirements of a "well-capitalized institution."

The OTS regulations contain prompt corrective action provisions that require certain mandatory remedial actions and authorize certain other discretionary actions to be taken by the OTS against a savings association that falls within specified categories of capital deficiency. The relevant regulations establish five categories of capital classification for this purpose, ranging from "well-capitalized" or "adequately capitalized" through "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." In general, the prompt corrective action regulations prohibit an OTS-regulated institution from declaring any dividends, making any other capital distributions, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories.

### ***Insurance of Deposit Accounts***

Deposits of the Bank are presently insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC, up to \$100,000 per depositor. The FDIC has established a risk-based system for setting deposit insurance assessments. Under the risk-based assessment system, a savings association's insurance assessments vary according to the level of capital the institution holds and the degree to which it is the subject of supervisory concern. Insurance of deposits may be terminated by the FDIC upon a finding that the savings association has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS.

### ***Capital Distribution Regulations***

OTS regulations limit "capital distributions" by savings associations, which include, among other things, dividends and payments for stock repurchases. A savings association that is a subsidiary of a savings and loan holding company must notify the OTS of a capital distribution at least 30 days prior to the proposed declaration of dividend or the approval by the association's board of directors of the proposed capital distribution. The 30-day period provides the OTS an opportunity to object to the proposed distribution if it believes that the distribution would not be advisable.



An application to the OTS for specific approval to pay a dividend, rather than the notice procedure described above, is required if: (a) the total of all capital distributions made during a calendar year (including the proposed distribution) exceeds the sum of the institution's year-to-date net income and its retained income for the preceding two years, (b) the institution is not eligible under OTS regulations for "expedited treatment" (which is generally available to institutions the OTS regards as well run and adequately capitalized), (c) the institution would not be at least "adequately capitalized" following the proposed capital distribution, or (d) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OTS.

### ***Community Reinvestment Act and the Fair Lending Laws***

Savings associations are examined under the Community Reinvestment Act ("CRA") and related regulations of the OTS on the extent of their efforts to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act, together known as the "Fair Lending Laws," prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. Enforcement of these regulations has been an important focus of federal regulatory authorities and of community groups in recent years. A failure by us to comply with the provisions of the CRA could, at a minimum, result in adverse action on branch and certain other corporate applications, and regulatory restrictions on our activities, and failure to comply with the Fair Lending Laws could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice. We received an overall "Satisfactory" rating during our most recent CRA evaluation.

### ***Privacy Protection***

The OTS has adopted privacy protection regulations which require each savings association to adopt procedures to protect consumers' and customers' "nonpublic personal information." It is our policy not to share customers' information with any unaffiliated third parties, except as expressly permitted by law, or to allow third party companies to provide marketing services on our behalf, or under joint marketing agreements between us and other unaffiliated financial institutions. In addition to federal laws and regulations, we are required to comply with any privacy requirements prescribed by California and other states in which we do business that afford consumers with protections greater than those provided under federal law.

## **KEY OPERATING RISKS**

Like all businesses, we assume a certain amount of risk in order to earn returns on our capital. For further information on these and other key operating risks, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **INCOME TAX CONSIDERATIONS**

We report our income on a calendar year basis using the accrual method of accounting. We are subject to federal income taxation under existing provisions of the Internal Revenue Code of 1986, as amended, in generally the same manner as other corporations. We are also subject to state taxes in the areas in which we conduct business.

## **EMPLOYEES**

As of December 31, 2003, we had 3,883 full-time equivalent employees, including 371 temporary employees. We believe that we have generally good relations with our employees.



## COMPETITION

We face significant competition in acquiring and selling loans. In our mortgage banking operations, we compete with other mortgage bankers, GSEs, established third party lending programs, investment banking firms, banks, savings and loan associations, and other lenders and entities purchasing mortgage assets. With regard to mortgage-backed securities issued through our mortgage banking operations, we face competition from other investment opportunities available to prospective investors. We estimate our market share of the U.S. mortgage market to be approximately 1%. A number of our competitors have significantly larger market share and financial resources. We seek to compete with financial institutions and mortgage companies through an emphasis on quality of service, diversified products and maximum use of technology.

The GSEs have made and we believe will continue to make significant technological and economic advances to broaden their customer bases. When the GSEs contract or expand, there are both positive and negative impacts on our mortgage banking lending operations. As GSEs expand, additional liquidity is brought to the market, and loan products can be resold more quickly. Conversely, expanding GSEs increase competition for loans, which may reduce profit margins on loan sales. We seek to address these competitive pressures by making a strong effort to maximize our use of technology, by diversifying into other residential mortgage products that are less affected by GSEs, and by operating in a more cost-effective manner than our competitors.

## WEBSITE ACCESS TO UNITED STATES SECURITIES AND EXCHANGE COMMISSION FILINGS

All reports filed electronically by us with the Securities and Exchange Commission ("SEC"), including Annual Reports on Form 10-K, quarterly reports on Form 10-Q, and current event reports on Form 8-K, as well as any amendments to those reports, are made accessible as soon as reasonably practicable after filing with the SEC at no cost on our website at [www.indymacbank.com](http://www.indymacbank.com). These filings are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

We have a Code of Business Conduct and Ethics that is applicable to all of our employees, officers and directors, including the principal executive officer, the principal financial officer and the principal accounting officer. We also adopted formal corporate governance standards in January 2002, which the Nominating and Governance Committee of the Board of Directors reviews annually to ensure they incorporate recent corporate governance developments and generally meet the corporate governance needs of IndyMac. You may obtain copies of each of the Code of Business Conduct and Ethics and the Board of Directors' Guidelines for Corporate Governance Issues by accessing the "Corporate Governance" subsection of the "Investors" section of [www.IndyMacBank.com](http://www.IndyMacBank.com), or by writing to our Corporate Secretary at IndyMac Bancorp, Inc., 155 North Lake Avenue, Pasadena, California 91101.



## **ITEM 2. PROPERTIES**

Our significant leased properties are as follows:

<u>Purpose</u>	<u>Location</u>	<u>Approximate Square Feet</u>	<u>Principal Lease Expiration</u>
Corporate Headquarters/ Administration .....	155 North Lake; Pasadena, California	192,000	2010
B2C Headquarters and Operations/ HBD Sales Office/Home Loan Servicing .....	Irvine Center Drive; Irvine, California	85,000	2004
Home Loan Servicing .....	Kalamazoo, Michigan	33,000	2008
Regional Mortgage Banking Center ..	Sacramento, California	27,000	2006
Regional Mortgage Banking Center ..	Marlton, New Jersey	35,000	2004-2006
Regional Mortgage Banking Center ..	Atlanta (Norcross), Georgia	33,000	2006
Regional Mortgage Banking Center/ B2C Sales Office .....	Kansas City, Missouri	53,000	2009
Regional Mortgage Banking Center ..	Dallas (Irving), Texas	41,000	2008
Regional Mortgage Banking Center ..	Seattle (Bellevue), Washington	31,000	2008
Regional Mortgage Banking Center*	1 Banting; Irvine, California	123,000	2011
Consumer Banking Operations .....	Seven locations in Southern California	38,000	2004-2010
Other Sales Offices .....	13 locations in various states	19,000	2004-2005

\* Commencing in 2004

In addition to the above leased office space, we own the building that houses our mortgage banking headquarters, located in Pasadena, California, totaling 266,000 square feet. We also own a building in La Mirada, California with 16,500 square feet, which houses our information technology data center. We own an additional five banking offices, containing an aggregate of approximately 60,000 square feet, located in Southern California.

## **ITEM 3. LEGAL PROCEEDINGS**

On February 3, 2004, Washington Mutual Mortgage Securities Corporation filed a lawsuit against IndyMac in the Superior Court of the State of California. The lawsuit involves a contractual dispute about standard representations and warranties on single-family mortgage loans that were sold to PNC Mortgage Corporation during the period 1997 to 2000, prior to Washington Mutual's acquisition of PNC Mortgage Corporation in 2001. Washington Mutual alleges damages of approximately \$50 million, the bulk of which includes the principal balance of the loans in question, with the remainder of the amount consisting of interest and alleged losses. The loans in question represent less than 1% of the nearly \$6 billion in loans that were sold to PNC between 1997 and 2000. IndyMac maintains a reserve for potential losses related to its standard representations and warranties on loans sold and discusses such reserve in its financial statements filed with the SEC. Management believes that the resolution of this dispute will not have a material impact on the financial condition of IndyMac.

We are involved in other litigation arising from normal operations. In the opinion of management, none of these matters are likely to have a materially adverse effect on our results of operations or financial condition.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of shareholders during the quarter ended December 31, 2003.



## PART II

### **ITEM 5. MARKET FOR INDYMAC BANCORP, INC.'S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS**

#### **STOCK INFORMATION**

IndyMac Bancorp Inc.'s common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "NDE."

The following table sets forth the high and low sales prices (as reported by Bloomberg Financial Service) for shares of IndyMac Bancorp Inc.'s common stock for the years ended December 31, 2003 and 2002.

	2003		2002	
	High (\$)	Low (\$)	High (\$)	Low (\$)
First Quarter .....	20.51	17.65	25.95	21.97
Second Quarter .....	26.96	19.00	26.89	22.16
Third Quarter .....	27.33	21.17	23.85	17.55
Fourth Quarter .....	31.97	23.20	20.20	16.14

During the year ended December 31, 2002, we repurchased 6.2 million shares under our board-approved stock repurchase plan. No such repurchases were made during 2003. The Company repurchased 24,178 shares during 2003 from certain employees and officers under the Company's internal benefit programs offered to employees and officers.

As of February 23, 2004, 57,396,048 shares of IndyMac Bancorp Inc.'s common stock were held by approximately 1,853 shareholders of record.

#### **DIVIDEND POLICY**

In January of 2003, our Board of Directors reestablished the declaration and payment of quarterly cash dividends. Dividends will be paid at the discretion of the Board of Directors, based on IndyMac's operating performance and financial position, including earnings, capital and liquidity. It is management's intent to continue paying cash dividends in the near future. Cash dividends declared were as follows during 2003:

	Dividend per share	Dividend payout ratio
First Quarter 2003 .....	\$0.10	15%
Second Quarter 2003 .....	\$0.10	14%
Third Quarter 2003 .....	\$0.15	17%
Fourth Quarter 2003 .....	\$0.20	27%

There were no dividends declared during 2002.

In 2003, we funded the payment of dividends from the cash on hand at the holding company. The future principal source of funds for the dividend payments is anticipated to be the dividends we will receive from the Bank. The payment of dividends by the Bank is subject to regulatory requirements and review. See the caption "Capital Distribution Regulations" above for further information.

#### **EQUITY COMPENSATION PLANS INFORMATION**

The equity compensation plans information required by this Item 5 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.



**ITEM 6. SELECTED FINANCIAL DATA(1)**

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share data)				
<b>Operating Results for the Year</b>					
Interest income.....	\$ 575,841	\$ 477,104	\$ 544,940	\$ 442,750	\$ 356,555
Interest expense .....	264,904	267,816	342,318	283,355	185,623
Net interest income before provision for loan losses.....	310,937	209,288	202,622	159,395	170,932
Provision for loan losses .....	19,700	16,154	22,022	15,974	16,446
Net gain (loss) on sale of loans and securities .....	356,458	305,239	236,541	124,054	(10,010)
Other income (loss), net.....	60,444	76,933	80,999	69,623	3,944
Equity in earnings (loss) of IndyMac, Inc.....	—	—	—	—	2,109
Net revenues.....	708,139	575,306	498,140	337,098	150,529
Total other expenses .....	425,457	345,146	281,593	196,018	34,600
Earnings before provision for income taxes .....	282,682	230,160	216,547	141,080	115,929
Provision for income taxes(2) ...	111,379	86,767	89,974	23,154	—
Earnings before cumulative effect of a change in accounting principle .....	171,303	143,393	126,573	117,926	115,929
Cumulative effect of a change in accounting principle .....	—	—	(10,185)	—	—
Net earnings .....	<u>\$ 171,303</u>	<u>\$ 143,393</u>	<u>\$ 116,388</u>	<u>\$ 117,926</u>	<u>\$ 115,929</u>
Pro forma provision for income taxes(3) .....					48,373
Pro forma net earnings(3) .....					<u>\$ 67,556</u>



	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share data)				
<b>Per Share Data</b>					
Basic earnings per share before cumulative effect of a change in accounting principle(3) . . . .	\$ 3.10	\$ 2.47	\$ 2.07	\$ 1.73	—
Diluted earnings per share before cumulative effect of a change in accounting principle(3) . . . .	\$ 3.01	\$ 2.41	\$ 2.00	\$ 1.69	—
Pro forma basic earnings per share(3) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 0.87
Pro forma diluted earnings per share(3) . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 0.86
Dividends declared per share . . . .	\$ 0.55	\$ —	\$ —	\$ —	\$ 1.36
Dividends payout ratio(4) . . . . .	18.27%	—	—	—	91.84%
Book value per share at December 31 . . . . .	\$ 17.93	\$ 15.50	\$ 14.00	\$ 11.71	\$ 11.02
Closing price per share . . . . .	\$ 29.79	\$ 18.49	\$ 23.38	\$ 29.50	\$ 12.75
Average Common Shares (in thousands)					
Basic . . . . .	55,247	58,028	60,927	68,343	77,596
Diluted . . . . .	56,926	59,592	63,191	69,787	78,290
Shares Outstanding at December 31 (in thousands) . .	56,760	54,829	60,366	62,176	75,077
<b>Performance Ratios</b>					
Return on average equity . . . . .	18.3%	16.6%	15.3%	14.5%	7.9%
Return on average assets . . . . .	1.5%	1.8%	1.6%	2.4%	1.5%
Net interest income to pretax income (before cumulative effect of a change in accounting principle) . . . . .	110.0%	90.9%	94.2%	113.0%	147.5%
Average cost of funds . . . . .	2.74%	4.14%	5.53%	7.11%	5.89%
Net interest margin . . . . .	2.91%	2.89%	3.09%	3.50%	3.86%
Efficiency ratio(5) . . . . .	58%	58%	53%	57%	23%
Capital to net revenue ratio(6) . .	1.29%	1.46%	1.46%	2.41%	5.66%
Capital adjusted efficiency ratio(7) . . . . .	75%	85%	78%	137%	130%
Operating expenses to loan production . . . . .	1.41%	1.65%	1.59%	1.92%	0.50%



	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share data)				
<b>Balance Sheet Data at December 31</b>					
Securities .....	\$ 1,837,606	\$2,339,093	\$1,564,359	\$1,154,303	\$ 471,231
Loans held for sale, net .....	2,573,248	2,227,683	2,080,763	1,420,772	615,243
Loans held for investment, net ...	7,396,540	3,910,887	2,938,657	2,560,885	2,428,098
Mortgage servicing rights .....	443,688	300,539	321,316	211,127	—
Total assets .....	13,240,391	9,574,454	7,497,311	5,740,204	3,726,522
Deposits .....	4,350,773	3,140,502	3,238,864	797,935	—
Advances from Federal Home Loan Bank .....	4,934,911	2,721,783	1,999,378	1,264,457	—
Borrowings .....	2,438,451	2,491,715	1,053,670	2,850,189	2,863,973
Trust preferred securities .....	183,643	116,819	116,287	—	—
Shareholders' equity .....	1,017,431	849,965	845,138	727,893	827,530
<b>Balance Sheet and Asset Quality Ratios</b>					
Debt to equity ratio(8) .....	12.0:1	10.3:1	7.9:1	6.9:1	3.5:1
Core capital ratio(9) .....	7.56%	8.70%	9.16%	8.27%	N/A
Risk-based capital ratio(9) .....	12.95%	15.02%	15.39%	12.66%	N/A
Average equity to average assets	8.0%	10.9%	10.7%	16.6%	21.8%
Equity to total assets at year end	7.7%	8.9%	11.3%	12.7%	22.2%
Non-performing assets to total assets .....	0.76%	1.05%	1.55%	1.98%	3.39%
Allowance for loan losses to total loans held for investment .....	0.71%	1.28%	1.93%	2.25%	2.17%
Allowance for loan losses and other credit reserves to non- performing loans .....	140%	96%	79%	70%	56%
Allowance for loan losses to net charge-offs .....	295%	220%	248%	541%	363%
Provision for loan losses to net charge-offs .....	110.6%	69.9%	94.6%	146.7%	117.7%
Provision for loan losses to net charge-offs (core loan portfolio) (10) .....	150.7%	95.6%	79.1%	423.5%	0.6%
<b>Other Selected Items</b>					
Shares repurchased during the periods (in thousands) .....	24	6,184	3,364	13,939	4,542
Average repurchase price per share .....	\$ 19.31	\$ 21.27	\$ 23.42	\$ 16.65	\$ 13.94
Loans serviced (in millions) (11)	36,858	29,139	23,127	15,393	10,093
Loan production(12) .....	30,036	20,882	17,549	10,097	6,980
Loans sold .....	23,176	16,825	13,901	7,524	6,445
Net margin on sale of loans .....	1.67%	1.79%	1.65%	1.64%	1.54%

(1) Prior to January of 2000, one of IndyMac's subsidiaries, IndyMac, Inc. was not consolidated with IndyMac Bancorp for financial reporting or tax purposes, but was accounted for under the equity



method. Effective January of 2000, IndyMac Bancorp purchased all of IndyMac, Inc.'s outstanding common stock. Beginning January of 2000, IndyMac, Inc. was consolidated into the financial statements of IndyMac Bancorp as a wholly owned subsidiary.

- (2) The provision for income taxes in 2000 was reduced by a one-time tax benefit totaling \$36.1 million due to the termination of our REIT status.
- (3) In accordance with SEC Staff Accounting Bulletin 55 ("SAB 55"), historical net income for 1999 has been adjusted for the pro forma provision for income taxes calculated assuming we were fully taxable. Pro forma earnings per share are similarly presented for the year ended December 31, 1999, reflecting the pro forma effect of the change in our tax status to a fully taxable entity effective in January of 2000. In accordance with SAB 55, historical net income per share is not presented, as it is not meaningful based upon our conversion from a REIT to a fully taxable entity effective January of 2000.
- (4) Dividends declared per common share as a percentage of diluted earnings per share.
- (5) Defined as operating expenses divided by net interest income and other income.
- (6) Average equity divided by net interest income and other income.
- (7) Efficiency ratio multiplied by the capital to net revenue ratio.
- (8) Debt includes deposits.
- (9) IndyMac Bank, F.S.B. (excludes unencumbered cash at the Parent Company available for investment in IndyMac Bank). Risk-based capital ratio is based on the regulatory standard risk weighting. With IndyMac's additional subprime risk weightings, the ratios are 12.29%, 14.03%, 14.59%, and 12.26% for the years ended December 31, 2003, 2002, 2001 and 2000, respectively.
- (10) Represents the total loan portfolio excluding amounts of loans from discontinued product lines.
- (11) Represents entire servicing portfolio including IndyMac owned loans and loans subserviced for others on an interim basis.
- (12) Includes newly originated commitments on construction loans.



## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OVERVIEW**

IndyMac is a leading hybrid thrift/mortgage banking company. We offer a wide range of home mortgage products to a broad customer base using a technology-based approach. IndyMac is structured to achieve synergies among its operations and to enhance customer service, operating through its three main segments, IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group. The common denominator of our business is providing consumers with single-family residential ("SFR") mortgages through relationships with each segment's core customers via the channels in which each operates. IndyMac Mortgage Bank is focused on providing consumers with mortgage products through relationships with the Company's business customers — mortgage brokers, mortgage bankers, financial institutions, real estate professionals and homebuilders. IndyMac Consumer Bank provides the platform for the mortgage and deposit services that IndyMac offers directly to consumers. The Investment Portfolio Group serves as the main link to customers whose mortgages we service. Through its investments in SFR mortgages, mortgage-backed securities and mortgage servicing rights ("MSRs"), the Investment Portfolio Group generates core spread and fee income and provides critical support to IndyMac's mortgage lending operations.

While our segments are structured to achieve synergies with our varying customer base and marketing strategies, our operating activities primarily consist of two broad categories: mortgage banking activities and investing activities. Both of these activities are performed to varying degrees by each of our main segments as shown in the tables that follow. Mortgage banking activities are characterized by high asset turnover (the production and sale of mortgage loans) and efficient utilization of capital, but can be cyclical in nature depending on interest rates. Revenues generated by mortgage banking activities include gain on sale of mortgage loans, fee income and net spread (interest) income during the period loans are held pending sale. Investing activities tend to provide a source of revenues which is generally counter-cyclical to mortgage banking revenues, comprised primarily of net interest income and servicing fees. IndyMac is strategically focused on increasing the relative size of its portfolios of mortgage loans and HELOC loans held for investment and mortgage servicing in an effort to achieve greater balance between its mortgage banking activities and its core investing activities. We believe that our investing activities will increasingly act to stabilize IndyMac's core income. In addition to its revenue contribution, the Investment Portfolio Group performs the mortgage servicing function, which includes payment processing, customer service, default management and reporting to investors in our securitizations. The mortgage servicing function creates added opportunities to retain customers when the interest rate environment makes it attractive for them to refinance, and cross-market customers with other Company products. Default management, which includes the processes of collections, loss mitigation, foreclosures, bankruptcies, and foreclosed assets management, enables IndyMac to proactively manage credit risk for the Company and its investors in its securities. See "Item 1. Business" for further descriptions of our operating segments.

Record revenues, earnings and earnings per share as a result of continued strong mortgage loan production, characterized IndyMac's overall results for the year ended December 31, 2003. IndyMac earned \$171 million, or \$3.01 per share, during 2003, its highest earnings and earnings per share in its history. Loan production was at an all time high at \$30 billion for the year. Additionally, we grew our average earning assets 48% compared to 2002.

The fourth quarter of 2003 marked the beginning of what is expected to be a very significant transition in the mortgage industry, with the Mortgage Bankers Association of America ("MBAA") estimating that mortgage production industry-wide will decline 47% in 2004 compared to 2003. In spite of this significant contraction in the market, we are forecasting our 2004 earnings per share to range from \$2.90 to \$3.25. See "Future Outlook" below for further information on our financial projections.

The following tables summarize the Company's financial results for the year ended December 31, 2003, illustrating the revenues earned in its mortgage banking, investing and financing activities by each of its divisions. The profitability of each operating segment is measured on a fully-leveraged basis after allocating capital based on regulatory capital rules. The Company uses a fund transfer pricing ("FTP") methodology to



allocate interest income and expense to the operating segments. Each operating segment is allocated funding with maturities and interest rates matched with the expected lives and repricing frequencies of the segment's assets. The Retail Bank division within the Consumer Banking Group receives a funding credit for deposits using a similar methodology. The difference between these allocations and the Company's actual net interest income and capital levels resulting from centralized management of funding costs is reported in the Treasury unit. Corporate overhead costs related to managing the Company as a whole are not allocated to the operating segments.



The following table summarizes the segment financial highlights for the year ended December 31, 2003:

	<u>Mortgage Bank</u>	<u>Consumer Bank</u>	<u>Investment Portfolio</u>	<u>Other (2)</u>	<u>Total Company</u>
	(Dollars in thousands)				
<b>Operating Results</b>					
<b>Mortgage Banking Activities</b>					
Net interest income .....	\$ 118,028	\$ 23,573	\$ 32,103	\$ —	\$ 173,704
Gain (loss) on sale of loans .....	288,076	102,491	55,112	(58,368)	387,311
Other income .....	41,186	21,693	—	98	62,977
Net revenues (expense) .....	447,290	147,757	87,215	(58,270)	623,992
Operating expenses .....	148,867	69,162	1,257	—	219,286
Pretax income (loss) .....	298,423	78,595	85,958	(58,270)	404,706
<b>Investing Activities</b>					
Net interest income .....	68,038	13,544	78,706	4,056	164,344
Provision for loan losses .....	(2,000)	(5,382)	(12,305)	(13)	(19,700)
Service fee (expense) income .....	—	—	(22,490)	6,409	(16,081)
(Loss) gain on sale of securities .....	—	—	(33,989)	3,136	(30,853)
Other income (loss) .....	5,889	2,437	3,477	(428)	11,375
Net revenues .....	71,927	10,599	13,399	13,160	109,085
Operating expenses .....	35,817	4,712	42,239	1	82,769
Pretax income (loss) .....	36,110	5,887	(28,840)	13,159	26,316
<b>Financing and Other Activities</b>					
Net interest income (loss) .....	—	14,188	—	(41,299)	(27,111)
Other income .....	—	1,960	—	213	2,173
Net revenues (expense) .....	—	16,148	—	(41,086)	(24,938)
Operating expenses .....	—	20,854	—	102,548	123,402
Pretax loss .....	—	(4,706)	—	(143,634)	(148,340)
Total pretax income (loss) .....	334,533	79,776	57,118	(188,745)	282,682
Net income (loss) .....	\$ 202,390	\$ 48,264	\$ 34,557	\$ (113,908)	\$ 171,303
<b>Ratios</b>					
Percentage of assets .....	35.98%	9.55%	50.64%	3.83%	100%
Percentage of total revenue (expense) .....	73.32%	24.64%	14.21%	(12.17)%	100%
Percentage of pretax income (loss) .....	118.34%	28.22%	20.21%	(66.77)%	100%
<b>Balance Sheet Data</b>					
Average interest-earning assets(1) .....	\$ 4,116,854	\$1,061,147	\$5,263,690	\$ 233,013	\$10,674,704
Average total assets .....	\$ 4,213,922	\$1,118,876	\$5,930,803	\$ 448,681	\$11,712,282
Allocated capital .....	\$ 274,453	\$ 86,077	\$ 372,966	\$ 202,574	\$ 936,070
Capital allocated to mortgage banking activities .....	\$ 149,042	\$ 34,397	\$ 29,698	\$ —	\$ 213,137
Capital allocated to investing activities .....	\$ 125,411	\$ 48,334	\$ 343,268	\$ —	\$ 517,013
Capital allocated to financing and other activities .....	\$ —	\$ 3,346	\$ —	\$ 202,574	\$ 205,920
Allocated capital/total average assets .....	6.51%	7.69%	6.29%	45.15%	7.99%
Loans Produced .....	\$23,150,192	\$6,339,691	\$ 546,282	\$ —	\$30,036,165
Purchase mortgages .....	42%	7%	—	N/A	36%
Cash out refinance mortgages .....	36%	42%	—	N/A	37%
Rate and term refinance mortgages .....	22%	51%	100%	N/A	27%
<b>Performance Ratios</b>					
Return on equity (ROE) .....	74%	56%	9%	N/A	18%
ROE — mortgage banking activities .....	121%	138%	175%	N/A	115%
ROE — investing activities .....	17%	7%	(5)%	N/A	3%
ROE — financing and other activities .....	—	(85)%	—	N/A	(44)%
Return on assets (ROA) .....	4.80%	4.31%	0.58%	N/A	1.46%
Net interest margin .....	4.52%	4.83%	2.11%	N/A	2.91%
Efficiency ratio .....	35%	53%	39%	N/A	58%
Capital adjusted efficiency ratio .....	19%	25%	127%	N/A	75%
Average FTE .....	1,760	848	439	546	3,593

(1) The allowance for loan losses is excluded from average loan balances for purposes of calculating average interest-earning assets.

(2) Includes treasury and corporate overhead.



The following table provides additional detail on the segment results for IndyMac Mortgage Bank for the year ended December 31, 2003:

	Relationship Businesses — IndyMac Mortgage Bank				
	B2B	B2R	HCL	HBD	Total
	(Dollars in thousands)				
<b>Operating Results</b>					
<b>Mortgage Banking Activities</b>					
Net interest income	\$ 97,948	\$ 3,909	\$ 13,593	\$ 2,578	\$ 118,028
Gain on sale of loans	246,053	12,819	22,625	6,579	288,076
Other income	32,652	2,396	5,445	693	41,186
Net revenues	376,653	19,124	41,663	9,850	447,290
Operating expenses	125,706	15,775	2,218	5,168	148,867
Pretax income	250,947	3,349	39,445	4,682	298,423
<b>Investing Activities</b>					
Net interest income	—	—	38,275	29,763	68,038
Provision for loan losses	—	—	(1,064)	(936)	(2,000)
Service fee income	—	—	—	—	—
Loss on sale of securities	—	—	—	—	—
Other income	—	—	5,236	653	5,889
Net revenues	—	—	42,447	29,480	71,927
Operating expenses	—	—	28,572	7,245	35,817
Pretax income	—	—	13,875	22,235	36,110
<b>Financing and Other Activities</b>					
Net interest income	—	—	—	—	—
Other income	—	—	—	—	—
Net revenues	—	—	—	—	—
Operating expenses	—	—	—	—	—
Pretax income	—	—	—	—	—
Total pretax income	250,947	3,349	53,320	26,917	334,533
Net income	\$ 151,821	\$ 2,026	\$ 32,258	\$ 16,285	\$ 202,390
<b>Ratios</b>					
Percentage of assets	19.00%	0.81%	10.52%	5.65%	35.98%
Percentage of total revenue	53.19%	2.70%	11.88%	5.55%	73.32%
Percentage of pretax income	88.77%	1.19%	18.86%	9.52%	118.34%
<b>Balance Sheet Data</b>					
Average interest-earning assets	\$ 2,137,035	\$ 91,290	\$ 1,226,146	\$ 662,383	\$ 4,116,854
Average total assets	\$ 2,225,359	\$ 95,239	\$ 1,231,651	\$ 661,673	\$ 4,213,922
Allocated capital	\$ 135,073	\$ 5,415	\$ 66,627	\$ 67,338	\$ 274,453
Capital allocated to mortgage banking activities	\$ 135,073	\$ 5,415	\$ 5,222	\$ 3,332	\$ 149,042
Capital allocated to investing activities	\$ —	\$ —	\$ 61,405	\$ 64,006	\$ 125,411
Allocated capital/total average assets	6.07%	5.69%	5.41%	10.18%	6.51%
<b>Loans Produced</b>					
Purchase mortgages	\$17,799,661	\$941,256	\$3,112,074	\$1,297,201	\$23,150,192
Cash out refinance mortgages	31%	33%	97%	76%	42%
Rate and term refinance mortgages	43%	33%	0%	13%	36%
	26%	34%	3%	11%	22%
<b>Performance Ratios</b>					
Return on equity (ROE)	112%	37%	48%	24%	74%
ROE — mortgage banking activities	112%	37%	457%	85%	121%
ROE — investing activities	—	—	14%	21%	17%
Return on assets (ROA)	6.82%	2.13%	2.62%	2.46%	4.80%
Net interest margin	4.58%	4.28%	4.23%	4.88%	4.52%
Efficiency ratio	33%	82%	36%	31%	35%
Capital adjusted efficiency ratio	12%	23%	28%	52%	19%
Average FTE	1,268	155	225	112	1,760

#### IndyMac Mortgage Bank Divisions

- B2B** Business-to-Business division, its major lending channels are via relationships with mortgage professionals: mortgage brokers, mortgage bankers and financial institutions
- B2R** Business-to-Realtor division, provides mortgage loan services through relationships with Realtors
- HCL** Home Construction Lending division, provides construction-to-permanent mortgages and lot loans to individuals who are in the process of building their own homes, through IndyMac's B2B relationships and directly with consumers
- HBD** Homebuilder division, provides financing to subdivision developers and generates mortgage loans through its relationships with these entities



The following table provides additional details on the segment results for IndyMac Consumer Bank for the year ended December 31, 2003:

	Consumer Direct Businesses — IndyMac Consumer Bank			
	B2C	HELOC	Retail Bank	Total
	(Dollars in thousands)			
<b>Operating Results</b>				
<b>Mortgage Banking Activities</b>				
Net interest income	\$ 21,861	\$ —	\$ 1,712	\$ 23,573
Gain on sale of loans	96,732	—	5,759	102,491
Other income	20,794	—	899	21,693
Net revenues	139,387	—	8,370	147,757
Operating expenses	65,120	—	4,042	69,162
Pretax income	74,267	—	4,328	78,595
<b>Investing Activities</b>				
Net interest income	—	13,544	—	13,544
Provision for loan losses	—	(5,382)	—	(5,382)
Service fee income	—	—	—	—
Loss on sale of securities	—	—	—	—
Other income	—	2,437	—	2,437
Net revenues	—	10,599	—	10,599
Operating expenses	—	4,712	—	4,712
Pretax income	—	5,887	—	5,887
<b>Financing and Other Activities</b>				
Net interest income	—	—	14,188	14,188
Other income	—	—	1,960	1,960
Net revenues	—	—	16,148	16,148
Operating expenses	—	—	20,854	20,854
Pretax loss	—	—	(4,706)	(4,706)
Total pretax income (loss)	74,267	5,887	(378)	79,776
Net income (loss)	\$ 44,931	\$ 3,562	\$ (229)	\$ 48,264
<b>Ratios</b>				
Percentage of assets	4.70%	4.25%	0.60%	9.55%
Percentage of total revenue	19.68%	1.50%	3.46%	24.64%
Percentage of pretax income (loss)	26.27%	2.08%	(0.13)%	28.22%
<b>Balance Sheet Data</b>				
Average interest-earning assets	\$ 526,808	\$ 489,813	\$ 44,526	\$ 1,061,147
Average total assets	\$ 550,224	\$ 498,046	\$ 70,606	\$ 1,118,876
Allocated capital	\$ 31,969	\$ 48,334	\$ 5,774	\$ 86,077
Capital allocated to mortgage banking activities	\$ 31,969	\$ —	\$ 2,428	\$ 34,397
Capital allocated to investing activities	\$ —	\$ 48,334	\$ —	\$ 48,334
Capital allocated to financing and other activities	\$ —	\$ —	\$ 3,346	\$ 3,346
Allocated capital/total average assets	5.81%	9.70%	8.18%	7.69%
<b>Loans Produced (1)</b>	\$5,014,061	\$931,234	\$394,396	\$6,339,691
Purchase mortgages	6%	N/A	23%	7%
Cash out refinance mortgages	42%	N/A	30%	42%
Rate and term refinance mortgages	52%	N/A	47%	51%
<b>Performance Ratios</b>				
Return on equity (ROE)	141%	7%	(4)%	56%
ROE — mortgage banking activities	141%	—	108%	138%
ROE — investing activities	—	7%	—	7%
ROE — financing and other activities	—	—	(85)%	(85)%
Return on assets (ROA)	8.17%	0.72%	N/A	4.31%
Net interest margin	4.15%	2.77%	N/A	4.83%
Efficiency ratio	47%	29%	102%	53%
Capital adjusted efficiency ratio	11%	89%	24%	25%
Average FTE	609	12	227	848

(1) All HELOC products produced by the business units during 2003 were consolidated into the HELOC division for segment reporting.

#### IndyMac Consumer Bank Divisions

B2C	Business-to-Consumer division, offers SFR mortgage loans directly to consumers via the Internet and centralized call center
HELOC	Home Equity Line of Credit division, which emphasizes the marketing and production of HELOCs through all of IndyMac's mortgage origination channels, provides home equity lines of credit and second mortgages to consumers
Retail Bank	Retail Bank division, offers direct lending and deposit products to our depositors through our retail banking network, on-line contact center, and institutional money desk



The following table provides additional details on the segment results for the Investment Portfolio Group for the year ended December 31, 2003:

	Investment Portfolio Group				
	Mortgage Servicing- Related Assets(1)	Whole Loans(2)	MBS(3)	Discontinued Products(4)	Total
	(Dollars in thousands)				
<b>Operating Results</b>					
<b>Mortgage Banking Activities</b>					
Net interest income	\$ 32,103	\$ —	\$ —	\$ —	\$ 32,103
Gain on sale of loans	50,787	4,325	—	—	55,112
Other income	—	—	—	—	—
Net revenues	82,890	4,325	—	—	87,215
Operating expenses	1,257	—	—	—	1,257
Pretax income	81,633	4,325	—	—	85,958
<b>Investing Activities</b>					
Net interest income	38,623	31,475	2,756	5,852	78,706
Provision for loan losses	—	(5,480)	—	(6,825)	(12,305)
Service fee expense	(22,490)	—	—	—	(22,490)
(Loss) gain on sale of securities	(35,997)	—	2,008	—	(33,989)
Other income	1,937	1,540	—	—	3,477
Net (expense) revenues	(17,927)	27,535	4,764	(973)	13,399
Operating expenses	34,843	3,202	781	3,413	42,239
Pretax (loss) income	(52,770)	24,333	3,983	(4,386)	(28,840)
<b>Financing and Other Activities</b>					
Net interest income	—	—	—	—	—
Other income	—	—	—	—	—
Net revenues	—	—	—	—	—
Operating expenses	—	—	—	—	—
Pretax income	—	—	—	—	—
Total pretax income (loss)	28,863	28,658	3,983	(4,386)	57,118
Net income (loss)	\$ 17,462	\$ 17,338	\$ 2,410	\$ (2,653)	\$ 34,557
<b>Ratios</b>					
Percentage of assets	14.61%	23.76%	11.62%	0.65%	50.64%
Percentage of total revenue (expense)	9.18%	4.50%	0.67%	(0.14)%	14.21%
Percentage of pretax income (loss)	10.21%	10.14%	1.41%	(1.55)%	20.21%
<b>Balance Sheet Data</b>					
Average interest-earning assets	\$1,145,551	\$2,785,202	\$1,249,128	\$83,809	\$5,263,690
Average total assets	\$1,711,115	\$2,783,208	\$1,360,990	\$75,490	\$5,930,803
Allocated capital	\$ 203,622	\$ 124,242	\$ 37,766	\$ 7,336	\$ 372,966
Capital allocated to mortgage banking activities	\$ 29,698	\$ —	\$ —	\$ —	\$ 29,698
Capital allocated to investing activities	\$ 173,924	\$ 124,242	\$ 37,766	\$ 7,336	\$ 343,268
Allocated capital/total average assets	11.90%	4.46%	2.77%	9.72%	6.29%
Loans Produced	\$ 546,282	\$ —	\$ —	\$ —	\$ 546,282
<b>Performance Ratios</b>					
Return on equity (ROE)	9%	14%	6%	(36)%	9%
ROE — mortgage banking activities	166%	—	—	—	175%
ROE — investing activities	(18)%	12%	6%	(36)%	(5)%
Return on assets (ROA)	1.02%	0.62%	0.18%	(3.51)%	0.58%
Net interest margin	6.17%	1.13%	0.22%	6.98%	2.11%
Efficiency ratio	56%	9%	16%	58%	39%
Capital adjusted efficiency ratio	174%	29%	130%	73%	127%
Average FTE	392	8	5	34	439

- (1) Mortgage servicing-related assets include the following: (i) MSRs, interest-only strips and residual securities, (ii) securities held as hedges of such assets, including principal-only securities, agency debentures and U.S. treasury bonds, (iii) loans acquired through clean-up calls or through the Investment Portfolio Group's customer retention programs, and (iv) investment and non-investment grade securities.
- (2) Assets include all SFR loans held for investment other than discontinued products.
- (3) Assets include AAA-rated agency and private label MBS.
- (4) Discontinued products are home improvement and manufactured housing loans.



The following table provides additional details on the segment results for all others for the year ended December 31, 2003:

	Treasury Group(1)	Subtotal	Corporate Overhead	Eliminations	Total Company
	(Dollars in thousands)				
<b>Operating Results</b>					
<b>Mortgage Banking Activities</b>					
Net interest income	\$ —	\$ 173,704	\$ —	\$ —	\$ 173,704
Gain (loss) on sale of loans	—	445,679	—	(58,368)	387,311
Other income	—	62,879	—	98	62,977
Net revenues (expense)	—	682,262	—	(58,270)	623,992
Operating expenses	—	219,286	—	—	219,286
Pretax income (loss)	—	462,976	—	(58,270)	404,706
<b>Investing Activities</b>					
Net interest income	—	160,288	—	4,056	164,344
Provision for loan losses	—	(19,687)	—	(13)	(19,700)
Service fee (expense) income	—	(22,490)	—	6,409	(16,081)
(Loss) gain on sale of securities	—	(33,989)	—	3,136	(30,853)
Other income (loss)	—	11,803	115	(543)	11,375
Net revenues	—	95,925	115	13,045	109,085
Operating expenses (income)	—	82,768	3	(2)	82,769
Pretax income	—	13,157	112	13,047	26,316
<b>Financing and Other Activities</b>					
Net interest loss	(40,356)	(26,168)	(943)	—	(27,111)
Other income	200	2,160	—	13	2,173
Net (expense) revenues	(40,156)	(24,008)	(943)	13	(24,938)
Operating expenses	3,338	24,192	99,210	—	123,402
Pretax (loss) income	(43,494)	(48,200)	(100,153)	13	(148,340)
Total pretax (loss) income	(43,494)	427,933	(100,041)	(45,210)	282,682
Net (loss) income	\$(26,313)	\$ 258,898	\$ (60,244)	\$(27,351)	\$ 171,303
<b>Ratios</b>					
Percentage of assets	2.83%	98.99%	1.01%	0.00%	100%
Percentage of total revenue (expense)	(5.67)%	106.50%	(0.12)%	(6.38)%	100%
Percentage of pretax income (loss)	(15.39)%	151.38%	(35.39)%	(15.99)%	100%
<b>Balance Sheet Data</b>					
Average interest-earning assets	\$242,904	\$10,684,595	\$ (9,891)	\$ —	\$10,674,704
Average total assets	\$330,892	\$11,594,493	\$ 117,789	\$ —	\$11,712,282
Allocated capital	\$ 16,552	\$ 750,048	\$ 186,022	\$ —	\$ 936,070
Capital allocated to mortgage banking activities	\$ —	\$ 213,137	\$ —	\$ —	\$ 213,137
Capital allocated to investing activities	\$ —	\$ 517,013	\$ —	\$ —	\$ 517,013
Capital allocated to financing and other	\$ 16,552	\$ 19,898	\$ 186,022	\$ —	\$ 205,920
Allocated capital/total average assets	5.00%	6.47%	157.93%	—	7.99%
Loans Produced	\$ —	\$30,036,165	\$ —	\$ —	\$30,036,165
Purchase mortgages	N/A	N/A	N/A	N/A	36%
Cash out refinance mortgages	N/A	N/A	N/A	N/A	37%
Rate and term refinance mortgages	N/A	N/A	N/A	N/A	27%
<b>Performance Ratios</b>					
Return on equity (ROE)	N/A	35%	N/A	N/A	18%
ROE — mortgage banking activities	N/A	131%	N/A	N/A	115%
ROE — investing activities	N/A	2%	N/A	N/A	3%
ROE — financing and other activities	N/A	(147)%	N/A	N/A	(44)%
Return on assets (ROA)	N/A	2.23%	N/A	N/A	1.46%
Net interest margin	N/A	2.88%	N/A	N/A	2.91%
Efficiency ratio	N/A	42%	N/A	N/A	58%
Capital adjusted efficiency ratio	N/A	41%	N/A	N/A	75%
Average FTE	23	3,070	523	N/A	3,593

- (1) During the year ended December 31, 2003, the Treasury Group reported net interest expense of \$40.4 million. This amount includes interest expenses related to the trust preferred securities issued by the Company in 2003 and 2001, which is not allocated to the business units. The Treasury Group also credits the Retail Bank and Investment Portfolio Group amounts in addition to their normal FTP credit to reward their raising of core deposits. Additionally, the net expense in Treasury reflects the cost of maintaining adequate corporate liquidity, as well as certain fixed rate deposits with longer maturities raised in prior years, the higher cost of which is not allocated to the business units.



The following table compares the detail segment results of operations for the year ended December 31, 2003 to the year ended December 31, 2002:

	Relationship Businesses — IndyMac Mortgage Bank				
	B2B	B2R	HCL	HBD	Total
	(Dollars in thousands)				
<b>Mortgage Banking Activities</b>					
2003 — Pretax income .....	\$250,947	\$3,349	\$39,445	\$4,682	\$298,423
2002 — Pretax income (loss) .....	209,125	427	28,566	(622)	237,496
Percentage Change .....	20%	684%	38%	NM	26%
<b>Investing Activities</b>					
2003 — Pretax income .....	—	—	13,875	22,235	36,110
2002 — Pretax income .....	—	—	19,716	25,647	45,363
Percentage Change .....	NM	NM	(30)%	(13)%	(20)%
<b>Financing and Other Activities</b>					
2003 — Pretax income .....	—	—	—	—	—
2002 — Pretax income .....	—	—	—	—	—
<b>Net Income</b>					
2003 — Net income .....	151,821	2,026	32,258	16,285	202,390
2002 — Net income .....	127,354	310	29,319	15,135	172,118
Percentage Change .....	19%	554%	10%	8%	18%
<b>Performance Ratios</b>					
2003					
ROE .....	112%	37%	48%	24%	74%
ROA .....	6.82%	2.13%	2.62%	2.46%	4.80%
NIM .....	4.58%	4.28%	4.23%	4.88%	4.52%
Efficiency ratio .....	33%	82%	36%	31%	35%
Capital adjusted efficiency ratio .....	12%	23%	28%	52%	19%
Average FTE .....	1,268	155	225	112	1,760
2002					
ROE .....	149%	10%	55%	18%	76%
ROA .....	8.29%	0.55%	2.95%	2.04%	5.17%
NIM .....	4.73%	4.15%	4.62%	5.04%	4.76%
Efficiency ratio .....	34%	96%	30%	35%	35%
Capital adjusted efficiency ratio .....	9%	27%	23%	74%	18%
Average FTE .....	1,044	100	169	98	1,411

The Mortgage Bank segment's net income, from both mortgage banking and investing activities, increased by 18%, which was primarily related to the higher volume of loans produced and sold and the resulting gains recognized. Total loans sold increased 38% to \$23.2 billion in 2003 from \$16.8 billion in 2002. The Company's gain on sale of loans increased 29% to \$387 million in 2003 from \$301 million in the year ended 2002. The increase in the gain on sale was a result of the 38% increase in the amount of total loans sold, offset in part by a twelve basis point decrease in net profit margin, from 1.79% in the year 2002 to 1.67% in the year 2003.



The following table compares the detail segment results of operations for the year ended December 31, 2003 to the year ended December 31, 2002, continued:

	Consumer Direct Businesses — IndyMac Consumer Bank			
	B2C	HELOC	Retail Bank	Total
	(Dollars in thousands)			
<b>Mortgage Banking Activities</b>				
2003 — Pretax income.....	\$74,267	\$ —	\$ 4,328	\$78,595
2002 — Pretax income.....	45,604	—	1,962	47,566
Percentage Change .....	63%	—	121%	65%
<b>Investing Activities</b>				
2003 — Pretax income.....	—	5,887	—	5,887
2002 — Pretax income.....	—	3,450	—	3,450
Percentage Change .....	NM	71%	NM	71%
<b>Financing and Other Activities</b>				
2003 — Pretax loss.....	—	—	(4,706)	(4,706)
2002 — Pretax loss.....	—	—	(5,082)	(5,082)
Percentage Change .....	—	—	7%	7%
<b>Net Income</b>				
2003 — Net income (loss) .....	44,931	3,562	(229)	48,264
2002 — Net income (loss) .....	28,050	2,151	(1,955)	28,246
Percentage Change .....	60%	66%	88%	71%
<b>Performance Ratios</b>				
2003				
ROE .....	141%	7%	(4)%	56%
ROA .....	8.17%	0.72%	N/A	4.31%
NIM .....	4.15%	2.77%	N/A	4.83%
Efficiency ratio .....	47%	29%	102%	53%
Capital adjusted efficiency ratio .....	11%	89%	24%	25%
Average FTE .....	609	12	227	848
2002				
ROE .....	130%	11%	(26)%	58%
ROA .....	7.51%	1.16%	N/A	4.71%
NIM .....	4.19%	3.14%	N/A	6.28%
Efficiency ratio .....	53%	35%	115%	61%
Capital adjusted efficiency ratio .....	12%	113%	46%	25%
Average FTE .....	413	6	193	612

The Consumer Bank segment's net income increased \$20.0 million, or 71%, from 2002 to 2003. The increase was driven by an increase in loans produced and sold, similar to the Mortgage Bank segment.



The following table compares the detail segment results of operations for the year ended December 31, 2003 to the year ended December 31, 2002, continued:

	Investment Portfolio Group				
	Mortgage Servicing- Related Assets	Whole Loans	MBS	Discontinued Products	Total
	(Dollars in thousands)				
<b>Mortgage Banking Activities</b>					
2003 — Pretax income .....	\$81,633	\$4,325	\$ —	\$ —	\$85,958
2002 — Pretax income .....	—	13,781	—	—	13,781
Percentage Change .....	100%	(69)%	NM	NM	524%
<b>Investing Activities</b>					
2003 — Pretax (loss) income.....	(52,770)	24,333	3,983	(4,386)	(28,840)
2002 — Pretax income (loss).....	18,619	15,451	16,033	(2,446)	47,657
Percentage Change .....	NM	57%	(75)%	(79)%	(161)%
<b>Financing and Other Activities</b>					
2003 — Pretax income .....	—	—	—	—	—
2002 — Pretax income .....	—	—	—	—	—
<b>Net Income</b>					
2003 — Net income (loss) .....	17,462	17,338	2,410	(2,653)	34,557
2002 — Net income (loss) .....	11,491	17,557	9,411	(1,465)	36,994
Percentage Change .....	52%	(1)%	(74)%	(81)%	(7)%
<b>Performance Ratios</b>					
2003					
ROE .....	9%	14%	6%	(36)%	9%
ROA .....	1.02%	0.62%	0.18%	(3.51)%	0.58%
NIM .....	6.17%	1.13%	0.22%	6.98%	2.11%
Efficiency ratio.....	56%	9%	16%	58%	39%
Capital adjusted efficiency ratio.....	174%	29%	130%	73%	127%
Average FTE .....	392	8	5	34	439
2002					
ROE .....	8%	25%	30%	(12)%	14%
ROA .....	1.16%	1.34%	0.67%	(1.16)%	0.97%
NIM .....	5.25%	1.96%	0.77%	4.77%	2.16%
Efficiency ratio.....	61%	10%	7%	44%	33%
Capital adjusted efficiency ratio.....	183%	18%	12%	73%	77%
Average FTE .....	367	8	6	40	421

The Investment Portfolio Group segment's total net income in 2003 remained comparable to 2002 and the overall net interest margin remained comparable as well. In the mortgage servicing-related assets division however, there was an \$82 million increase in pretax income in 2003 compared to 2002 in mortgage banking activities. This revenue consisted primarily of income earned on our clean-up call loans (see further discussion below under "Investing Activities"), as well as on loans retained from our servicing portfolio. During 2003, as a result of the unprecedented prepayment environment, our Investment Portfolio Group contacted customers whose mortgage we service to assist them in refinancing their loans with IndyMac. Prior to 2003, loans refinanced for borrowers in our servicing platform were credited to the B2C division. Partially offsetting this mortgage banking revenue in 2003 was a \$71 million decrease in pretax income in investing activities. This decrease was driven by the increased prepayment speeds on our servicing-related assets, which resulted in higher amortization and impairment on these assets.



The following table compares the detail segment results of operations for the year ended December 31, 2003 to the year ended December 31, 2002, continued:

	<u>Treasury Group</u>	<u>Subtotal</u>	<u>Corporate Overhead</u>	<u>Eliminations</u>	<u>Total Company</u>
	(Dollars in thousands)				
<b>Mortgage Banking Activities</b>					
2003 — Pretax income (loss) . . . .	\$ —	\$462,976	\$ —	\$(58,270)	\$404,706
2002 — Pretax income (loss) . . . .	—	298,843	(106)	(28,913)	269,824
Percentage Change . . . . .	NM	55%	100%	(102)%	50%
<b>Investing Activities</b>					
2003 — Pretax income . . . . .	—	13,157	112	13,047	26,316
2002 — Pretax income . . . . .	—	96,470	313	4,738	101,521
Percentage Change . . . . .	NM	(86)%	(64)%	175%	(74)%
<b>Financing and Other Activities</b>					
2003 — Pretax (loss) income . . . .	(43,494)	(48,200)	(100,153)	13	(148,340)
2002 — Pretax loss . . . . .	(61,486)	(66,568)	(74,617)	—	(141,185)
<b>Net Income</b>					
2003 — Net (loss) income . . . . .	(26,313)	258,898	(60,244)	(27,351)	171,303
2002 — Net (loss) income : . . . .	(36,649)	200,709	(42,769)	(14,547)	143,393
Percentage Change . . . . .	28%	29%	(41)%	(88)%	19%
<b>Performance Ratios</b>					
2003					
ROE . . . . .	N/A	35%	N/A	N/A	18%
ROA . . . . .	N/A	2.23%	N/A	N/A	1.46%
NIM . . . . .	N/A	2.88%	N/A	N/A	2.91%
Efficiency ratio . . . . .	N/A	42%	N/A	N/A	58%
Capital adjusted efficiency ratio . .	N/A	41%	N/A	N/A	75%
Average FTE . . . . .	23	3,070	523	N/A	3,593
2002					
ROE . . . . .	N/A	37%	N/A	N/A	17%
ROA . . . . .	N/A	2.54%	N/A	N/A	1.80%
NIM . . . . .	N/A	2.81%	N/A	N/A	2.89%
Efficiency ratio . . . . .	N/A	44%	N/A	N/A	58%
Capital adjusted efficiency ratio . .	N/A	38%	N/A	N/A	85%
Average FTE . . . . .	28	2,472	468	N/A	2,940

The following discussion and analysis should be read in conjunction with our consolidated financial statements, and the notes thereto and the other information incorporated by reference herein.



## OPERATIONS

### MORTGAGE BANKING ACTIVITIES

#### Loan Production

During the year ended December 31, 2003, we produced a record \$30.0 billion of loans, which was a 44% increase over the \$20.9 billion of loans produced during the year ended December 31, 2002. The strong production volume reflects the continued unprecedented levels of production in the mortgage industry, continued penetration of the purchase market, growth in our products that are less interest rate sensitive, and the success of our Investment Portfolio Group's customer retention program.

Total production by loan type was as follows:

	Year Ended December 31,		
	2003	2002	Percentage Change
	(Dollars in millions)		
<b>Volume by product</b>			
Prime(1)			
Agency conforming	\$ 5,096	\$ 4,180	22%
Alt-A	15,496	8,515	82%
Jumbo	3,727	4,223	(12)%
Subprime(1)	1,855	1,379	35%
Home equity line of credit(2)	932	401	132%
Consumer construction(2)	2,130	1,578	35%
Subtotal mortgage production	29,236	20,276	44%
Subdivision construction commitments	800	606	32%
Total production volume	<u>\$30,036</u>	<u>\$20,882</u>	<u>44%</u>
Mortgage — Web-based production	\$21,167	\$15,144	40%
Mortgage pipeline at period end(3)	\$ 4,116	\$ 4,723	(13)%

(1) Fundings.

(2) New commitments.

(3) Includes rate lock commitments for loans in process plus loans that have been submitted for processing, but not yet rate locked.

In addition to the record production volume, we have shown strong growth in purchase mortgages. The following table details the mix of our pipeline and production between purchase, cash out refinance, and rate/term refinance transactions at December 31, 2003 and 2002.

	As of and For the Year Ended		
	December 31, 2003	December 31, 2002	Percentage Change
	(Dollars in millions)		
<b>Mortgage loan production:</b>			
Purchase transactions	\$ 9,809	\$ 7,619	29%
Cash-out refinance transactions	11,141	7,252	54%
Rate/term refinance transactions	8,286	5,405	53%
Total mortgage loan production	<u>\$29,236</u>	<u>\$20,276</u>	<u>44%</u>
% purchase transactions	34%	38%	
<b>Mortgage pipeline:</b>			
Purchase transactions	\$ 1,586	\$ 1,142	39%
Cash-out refinance transactions	1,568	1,843	(15)%
Rate/term refinance transactions	962	1,738	(45)%
Mortgage pipeline at period end	<u>\$ 4,116</u>	<u>\$ 4,723</u>	<u>(13)%</u>
% purchase transactions	39%	24%	

#### Mortgage Production by Division and Channel

IndyMac generates its mortgage production through multiple channels on a nationwide basis with a concentration in those regions of the country in which we have regional offices or in which there are higher home prices, including California, Florida, New Jersey and New York. Our highest concentration of mortgage loans relates to properties in California. Mortgages secured by California properties accounted for 50% of the



mortgage loans produced in the year ended December 31, 2003 based on dollar value, and 43% based on number of loans.

IndyMac Mortgage Bank produces mortgages through its B2B, B2R, HCL and HBD divisions. IndyMac Consumer Bank produces mortgages through its B2C, HELOC and Retail Bank divisions.

The following table shows production and key performance indicators of the various relationship businesses of IndyMac Mortgage Bank during the year ended December 31, 2003.

	Relationship Businesses — IndyMac Mortgage Bank				
Year Ended December 31, 2003	B2B	B2R	HCL	HBD	Total
	(Dollars in millions)				
<b>Volume by Channel and Customer Source</b>					
Mortgage brokers .....	\$11,049	\$ —	\$1,544	\$ —	\$12,593
Mortgage bankers .....	4,303	—	969	—	5,272
Conduit .....	2,407	—	—	—	2,407
Realtors .....	—	970	—	—	970
Builder/Builder affiliates .....	—	—	81	508	589
Financial institutions .....	403	—	—	—	403
Consumer direct marketing .....	—	—	518	—	518
Subtotal mortgage production .....	18,162	970	3,112	508	22,752
Builder and subdivision construction commitments .....	—	—	—	800	800
Total relationship businesses production volume .....	<u>\$18,162</u>	<u>\$ 970</u>	<u>\$3,112</u>	<u>\$1,308</u>	<u>\$23,552</u>
Percentage of total production .....	60%	3%	10%	4%	78%
Percentage change relative to Year ended December 31, 2002 .....	32%	81%	30%	79%	35%
Composition of mortgage production:					
Purchase transactions .....	30%	33%	100%	75%	41%
Cash-out refinance transactions .....	45%	34%	0%	14%	37%
Rate/term refinance transactions .....	25%	33%	0%	11%	22%
<b>Key Performance Indicators for the Year Ended December 31, 2003</b>					
Active Customers:(1)					
Average monthly active customers .....	2,125	228	274	25	2,652
Active customers during the year .....	5,243	1,091	1,791	93	8,218
Net new customers during the year(2) .....	2,363	728	N/A	37	3,128
Cost per funded mortgage loan (bps) .....	80	200	85	130	N/A
<b>Percentage Change for the Year Ended December 31, 2003 vs. December 31, 2002</b>					
Active Customers:(1)					
Average monthly active customers .....	10%	128%	32%	208%	18%
Active customers during the twelve months .....	10%	59%	42%	152%	22%
Cost per funded mortgage loan (bps) .....	(4)%	(8)%	4%	18%	N/A

(1) Active customers are defined as customers who funded at least one loan during the period. The HCL division utilizes the B2B marketing relationships with mortgage brokers and mortgage bankers to produce consumer construction loans. As a result, there is some overlap of the two active customer statistics and new customers.

(2) Net new customers are the number of new customers signed up during the period less those terminated.

IndyMac Mortgage Bank's production increased 35% from the year ended December 31, 2002 to year ended December 31, 2003. In view of the industry-wide declining mortgage refinancing market forecasted by MBAA for 2004, we are renewing our focus on less cyclical products, such as ARM loans, sub-prime, second mortgages and HELOC's and purchase oriented products including land development programs. At the same time, we have been more disciplined in adding new customers that are more likely to remain active over the long term due to their product mix and technology focus. Consistent with our focus on new customers, we are continuing to expand our sales staff in all channels, focusing on countering the overall decline in the market by seeking to aggressively grow market share.



The following table shows production of the various consumer direct businesses of IndyMac Consumer Bank during the year ended December 31, 2003. In addition, our Investment Portfolio Group initiated a new customer retention program in connection with its servicing portfolio during the third quarter of 2003, as disclosed below.

	Consumer Direct Businesses — IndyMac Consumer Bank				Investment Portfolio Group
Year Ended December 31, 2003	B2C	HELOC	Retail Bank	Total	
	(Dollars in millions)				
<b>Volume by Channel and Source(1)</b>					
Web-based production:					
Direct at www.indymacmortgage.com	\$1,070	\$ —	\$ —	\$1,070	\$ —
Indirect Web-based leads	596	—	—	596	—
Cross-marketing and portfolio refinancing	2,860	—	188	3,048	546
Direct telemarketing and affinity relationships	784	199	—	983	—
Retail banking branches	—	—	239	239	—
Total consumer direct production volume	<u>\$5,310</u>	<u>\$199</u>	<u>\$427</u>	<u>\$5,936</u>	<u>\$546</u>
Percentage of total production	18%	1%	1%	20%	2%
Percentage change relative to Year ended					
December 31, 2002	63%	866%	197%	73%	N/A
Composition of mortgage production:					
Purchase transactions	5%	N/A	22%	7%	0%
Cash-out refinance transactions	45%	N/A	35%	44%	0%
Rate/term refinance transactions	50%	N/A	43%	49%	100%

(1) HELOC amounts represent the loans produced only by the HELOC division. HELOC loans produced by other business divisions totaled \$733 million during the year ended December 31, 2003. HELOC loans produced by business divisions other than the HELOC division are included in the production volume of the respective originating business division.

B2C's production volume grew 63% for the year ended December 31, 2003 compared to the year ended December 31, 2002. The B2C division is currently our most established consumer-direct business, generating 89% of the total consumer-direct business. This business is generally skewed to the refinance environment with its web centralized call center approach and as such, is expected to be more cyclical as a result of changes in interest rates. The HELOC division was established during 2002 to facilitate targeted marketing of our HELOC product directly to consumers in addition to the production of HELOCs within our other production channels. Through a streamlined application process and competitive pricing, this division provides homeowners the ability to easily access the equity in their homes for a variety of uses. Currently, we hold the HELOCs generated by the HELOC division for investment, as these HELOCs are prime rate based and typically have high FICO scores and low combined loan-to-value ratios. The HELOC product also tends to be somewhat counter-cyclical to the mortgage industry. As interest rates rise, consumers who want to access the equity in their home are more inclined to utilize a HELOC product rather than a cash-out refinance of their existing low-rate mortgage loan. As a result, we expect the HELOC division's production to increase as the market transitions to a higher interest rate environment.



## Loan Sales

The Company sold \$23.2 billion and \$16.8 billion of loans during the years ended December 31, 2003 and 2002, respectively. The Company's gain on sale of loans increased 29% in the year ended December 31, 2003 to \$387 million, from \$301 million in the year ended December 31, 2002. The increase in the gain on sale was a result of a 38% increase in the amount of loans sold, offset in part by a twelve basis point decrease in net profit margin, from 1.79% in the year 2002 to 1.67% in the year 2003.

The Company hedges the interest rate risk inherent in its pipeline of mortgage loans held for sale to protect its margin on sale of loans. Hedging practices can vary significantly from company to company ranging across a broad spectrum. At one extreme, a mortgage banker may choose to not hedge its pipeline at all. Mortgage bankers who choose to not hedge their pipeline will typically report higher earnings and profit margins in a falling interest rate environment, and lower earnings and profit margins in a rising interest rate environment. This will be the most profitable strategy over an indefinite period of time as more production is done in the declining rate environment, assuming the rates rise as often as they fall. However, such a strategy results in highly volatile earnings and could result in losses for an extended period of time potentially risking the depletion of capital reserves. Conversely at the other extreme, a mortgage banker can choose to hedge 100% of its pipeline with option-based instruments to closely offset the "free option" enjoyed by the mortgage loan applicant to not close on his or her loan (i.e. "fallout"). This hedging strategy will generally produce stable and consistent results, but profitability is significantly reduced as the cost of the options can be prohibitive.

Generally, prudent mortgage bankers will choose a strategy that falls within the boundaries of the above extremes. IndyMac tends to utilize instruments such as forward sale agreements whose change in value as interest rates change is expected to offset the change in value of its underlying mortgage pipeline based on expected closing ratios. Utilizing this strategy we focus on trying to maintain stable profit margins with an emphasis on forecasting expected fallout to more precisely estimate our required hedge coverage ratio and minimize hedge costs. By closely monitoring key factors such as product type, business units, progress or "status" of transactions, as well as changes in market interest rates since we committed a rate to the borrower ("rate lock commitments"), the Company seeks to quantify the optional component of each rate lock, and in turn, the aggregate rate lock pipeline. By accurately evaluating these factors, the Company has been able to minimize the purchase of options and also stabilize gain on sale margins over different rate environments. Companies with lower coverage ratios may tend to follow the market increasing their hedge costs and reducing their profit margins as interest rates rise. In comparing financial results, investors should be aware of the varying results that can be achieved under different hedge strategies.

The table below illustrates the impact of the Company's pipeline hedging activities.

	Year Ended December 31,		
	2003	2002	% Change
	(Dollars in millions)		
Gross gain on mortgage loan sales .....	\$419	\$ 511	(18)%
Gross margin before hedging .....	1.81%	3.04%	(40)%
Hedging losses .....	\$(32)	\$(210)	85%
Net gains on sale .....	\$387	\$ 301	29%
Net margin after hedging .....	1.67%	1.79%	(7)%

Included in the pipeline are rate lock commitments in addition to mortgage loans held for sale. Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") and, therefore, are recorded at fair value. The Company hedges the risk of changes in fair value of rate lock commitments generally by selling forward contracts on securities of Fannie Mae or Freddie Mac as the Company deems appropriate to prudently manage this risk. These forward contracts are also accounted for as derivatives and recorded at fair value.



In measuring the fair value of rate lock commitments, the proceeds expected upon eventual loan sale are used. This value excludes the value of the MSRs inherent in the loan except for certain high quality, liquid, conventional mortgages where whole loan sale prices including servicing rights are readily available. These values are calculated using the same methodologies that are used in our loan sales, adjusted using an anticipated fallout factor for rate lock commitments that will likely not be funded. This method of calculating the value of the derivative has the effect of recognizing a portion of the gain from mortgage loans before the loans are funded. As of December 31, 2003, the fair value of the rate lock commitments, net of related hedges, was \$20.7 million.

During the fourth quarter of 2003, the Securities and Exchange Commission announced its intention to issue accounting guidance requiring that rate lock commitments be treated as written options. This guidance, if issued, would change the timing of the Company's recognition of gain on sale revenue. Had the guidance been applied during the fourth quarter of 2003, the revenue related to the fair value of rate locks granted during the quarter would not have been recognized until the related loans were sold. This amount is estimated to be roughly 50% of total quarterly gain on sale revenue. Since the time between rate lock and loan sale is typically less than 90 days, this revenue would likely be recognized in the following quarter.

The SEC guidance is currently expected to be implemented as of April 1, 2004. This implementation is expected to have a one-time negative impact on gain on sale revenues in the quarter implemented, but effects only the timing of revenue recognition, generally by one quarter or less, not the ultimate amount of revenue recognized over time.

The following table presents the gain on sale margins by product type for the years ended December 31, 2003 and 2002:

Gain on Sale Margins by Product Type	Year Ended December 31, 2003			Year Ended December 31, 2002		
	Amount Sold	Gain on Sale	Margin	Amount Sold	Gain on Sale	Margin
	(Dollars in millions)					
Agency conforming .....	\$ 6,056	\$ 70.4	1.16%	\$ 4,521	\$ 60.1	1.33%
Alt-A and Jumbo .....	15,146	257.1	1.70%	11,227	198.6	1.77%
Subprime .....	994	26.2	2.64%	942	38.7	4.11%
Loans acquired through clean-up calls .....	826	30.4	3.68%	—	—	—
Lot loan and income property .....	154	3.2	2.08%	135	3.4	2.52%
Total gain on sale of loans .....	<u>\$23,176</u>	<u>\$387.3</u>	1.67%	<u>\$16,825</u>	<u>\$300.8</u>	1.79%

In addition to the gain on sale, IndyMac earns spread and fee income on its mortgage loans held for sale. It is important to look at the entire mortgage banking revenue stream in evaluating performance as these components may vary in differing interest rate environments and sale strategies. The following table depicts the total revenue margin on mortgage loans sold, which is calculated by dividing the sum of gain on sale of loans, net interest income, and fee income by the amount of loans sold:

	Year Ended December 31,			
	2003		2002	
	Amount Sold	% of Loans Sold	Amount Sold	% of Loans Sold
	(Dollars in thousands)			
Gain on sale of loans .....	\$ 387,311	1.67%	\$ 300,800	1.79%
Net interest income .....	173,704	0.75%	96,035	0.57%
Fee income .....	62,977	0.27%	46,169	0.27%
Total mortgage banking revenue .....	<u>\$ 623,992</u>	<u>2.69%</u>	<u>\$ 443,004</u>	<u>2.63%</u>
Loans sold .....	<u>\$23,175,841</u>		<u>\$16,825,419</u>	



The following table shows the various channels through which loans were distributed:

	Year Ended December 31,			
	2003	(Dollars in millions)	2002	
	Loan Distribution	Distribution Percentage	Loan Distribution	Distribution Percentage
Sales to the GSEs(1) .....	\$13,870	50%	\$ 9,103	50%
Private-label securitizations .....	5,778	21%	6,255	35%
Whole loan sales .....	3,528	13%	1,467	8%
Subtotal sales .....	23,176	84%	16,825	93%
Investment portfolio acquisitions(2) .....	4,353	16%	1,344	7%
Total loan distribution .....	<u>\$27,529</u>	<u>100%</u>	<u>\$18,169</u>	<u>100%</u>

(1) Government-sponsored enterprises.

(2) Loan production that IndyMac elected to retain in its investment portfolio.

In conjunction with the sale of mortgage loans in private-label securitizations and GSE transactions, the Company generally retains certain assets. The primary assets retained include MSRs and, to a lesser degree, AAA-rated and agency interest-only strips, AAA-rated senior securities, non-investment grade securities and residual securities. The allocated cost of the retained assets at the time of sale is recorded as an asset with an offsetting increase to the gain on sale of loans (or a reduction in the cost basis of the loans sold). The calculation of the \$387 million in gain on sale of loans earned during the year ended December 31, 2003 included the retention of \$367 million of servicing-related assets and \$19 million of other investment and non-investment grade securities. During the year ended December 31, 2003, the assets previously retained generated cash flows of \$198 million. More information on the valuation assumptions related to IndyMac's retained assets can be found under the heading, "Valuation of Servicing-Related Assets" below.



## INVESTING ACTIVITIES

IndyMac's Investment Portfolio Group complements the Company's mortgage banking activities and serves to diversify the Company's revenue stream through its investments in SFR mortgage loans, mortgage-backed securities and servicing-related assets.

The Investment Portfolio Group's investment in prime SFR loans, mortgage-backed securities and mortgage loan servicing-related assets helps to provide stable earnings in periods when mortgage banking revenues decline. Should loan production decline due to factors such as increasing interest rates, the value and fee income of the Investment Portfolio Group's MSR's generally rises, as there is less incentive for borrowers to refinance at a higher interest rate. Similarly, when loan production increases, the value of the MSR's and the associated income streams generally decrease. We believe this serves to stabilize the Company's revenue stream through increased interest and servicing fee income when production slows.

In addition to the Investment Portfolio Group's investments, certain investing activities also take place in our IndyMac Mortgage Bank and IndyMac Consumer Bank segments. These activities include the investment in construction loans and HELOCs by these business units.

The following table shows average annualized net returns for all of our investing activities, which is calculated by dividing the sum of net interest income after allocated interest expense and provision for loan losses, service fee income and related net gains or losses by the average balance of investment assets. Service fee income includes gross service fee income, amortization of MSR's, valuation adjustments and net hedging gains and losses. Gross service fee income includes reinvestment income, prepayment and late fee income net of compensating interest paid to borrowers and investors in addition to the contractual servicing fees.

	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(Dollars in thousands)	
Net interest income after provision for loan losses .....	\$ 144,644	\$ 138,885
Service fee (loss) income .....	(16,081)	19,197
(Loss) gain on mortgage-backed securities, net .....	(30,853)	4,439
Other income .....	11,375	9,850
Average balance of interest-earning assets and MSR's .....	\$7,346,974	\$5,194,060
Investing activities' return before operating expenses on interest-earning assets and MSR's .....	1.48%	3.32%

The returns on our investment portfolio were lower in 2003 than in 2002 primarily as a result of the cumulative impact of continued accelerated prepayments during 2003. Higher yielding assets have been replaced with lower yielding assets in the current low interest rate environment. Additionally, as prepayments shorten the expected duration of the portfolio of MSR's, the discount rate decreases relative to the shorter life of the asset. All other things being equal, we expect the performance of our investment portfolio will improve as interest rates rise and prepayments slow to more normal levels.



### *Investment Portfolio Group*

The following table sets forth the composition of the Investment Portfolio Group's assets as of December 31, 2003 and 2002:

	December 31,	
	2003	2002
	(Dollars in thousands)	
<b>SFR mortgage loans held for investment</b> .....	\$4,945,439	\$2,096,517
<b>SFR mortgage loans held for sale</b> .....	610,953	—
<b>Mortgage-backed, U.S. Treasury securities and agency notes:</b>		
Trading securities:		
AAA-rated and agency interest-only strips .....	146,179	187,060
AAA-rated principal-only securities .....	8,518	79,554
U.S. Treasury securities .....	—	282,219
AAA-rated non-agency securities .....	—	101,185
AAA-rated agency securities .....	—	25,055
Other investment grade securities .....	8,922	9,114
Other non-investment grade securities .....	1,760	2,956
Residual securities .....	58,253	78,740
Subtotal — trading securities .....	223,632	765,883
Available for sale securities		
AAA-rated non-agency securities .....	1,407,984	1,406,321
AAA-rated agency securities .....	25,193	123,269
AAA-rated agency notes .....	143,689	—
Other investment grade securities .....	26,926	39,258
Other non-investment grade securities .....	10,182	4,362
Subtotal — available for sale securities .....	1,613,974	1,573,210
Total mortgage-backed, U.S. Treasury securities and agency notes .....	1,837,606	2,339,093
<b>Mortgage servicing rights</b> .....	443,688	300,539
<b>Other assets</b> .....	280,467	209,039
<b>Total</b> .....	<u>\$8,118,153</u>	<u>\$4,945,188</u>
Percentage of securities portfolio rated investment grade .....	96%	96%
Percentage of securities portfolio rated AAA .....	94%	94%

AAA-rated and agency interest-only strips and residual securities and securities used to hedge these assets are classified as trading securities. Changes in the fair value of these securities are recorded in earnings. All other mortgage-backed securities are classified as available for sale, and changes in fair value of these assets are recorded in equity.



### *SFR Mortgage Loans Held for Investment*

The Company's portfolio of mortgage loans held for investment is comprised primarily of SFR mortgage loans, with a concentration in adjustable-rate and hybrid adjustable-rate mortgage loans to mitigate interest rate risk. The Company plans on increasing its portfolio of mortgage loans held for investment to achieve better balance in its investing activities relative to its mortgage banking activities, which tend to be more cyclical. During 2003, the Company added \$4.4 billion of mortgage loans in accordance with this strategy. The following table shows the composition of this portfolio as of December 31, 2003 and 2002 and relevant credit quality characteristics at December 31, 2003:

	December 31,	
	2003	2002
	(Dollars in thousands)	
SFR mortgage loans held for investment .....	\$4,945,439	\$2,096,517
Average loan size .....	\$ 286	\$ 227
Non-performing loans as a percentage of SFR loans .....	0.38%	1.20%
Estimated average life in years(1) .....	3.1	3.4
Estimated average duration in years(2) .....	1.4	1.4
Annual yield .....	4.63%	6.53%
Fixed-rate mortgages .....	6%	23%
Adjustable-rate mortgages .....	39%	28%
Hybrid adjustable-rate mortgages .....	55%	49%
<u>Additional Information as of December 31, 2003</u>		
Average FICO score(3) .....		707
Average loan-to-value ratio .....		73%
Geographic distribution:		
Southern California .....		39%
Northern California .....		22%
New York .....		4%
Florida .....		3%
Michigan .....		3%
Georgia .....		2%
Colorado .....		2%
New Jersey .....		2%
Washington .....		2%
Other (each individually less than 2%) .....		21%
Total .....		<u>100%</u>

- (1) Represents the estimated length of time, on average, the SFR loan portfolio will remain outstanding based on the Bank's estimates for prepayments.
- (2) Average duration measures the expected variability of the value of a financial instrument in response to changes in interest rates.
- (3) FICO scores reflect a credit scoring system developed by Fair Isaacs and Co. and are generally used by lenders to evaluate a borrower's credit history. FICO scores of 700 or higher are generally considered in the mortgage industry to be very high quality borrowers with low risk of default, but in general, the secondary market will consider FICO scores of 620 or higher to be prime.



### *SFR Mortgage Loans Held for Sale*

Loans held for sale in the Investment Portfolio Group are substantially comprised of SFR mortgage loans acquired through exercising our right to call selected private label securitization transactions as Master Servicer and loans generated through retention programs. The Company maintains the right to call selected transactions when the outstanding loan balances in the securitization trust decline to a specified level, typically 10% of the original collateral balance. During the year ended December 31, 2003, we called a total of approximately \$1.6 billion in loans. We sold approximately \$826 million of clean-up call loans during the year, for a pretax gain of \$30.4 million. Additionally, during 2003, we recognized a pretax gain of \$19.7 million on loans sold related to the loans acquired through our retention program. The balance at December 31, 2003 of loans held for sale for the Investment Portfolio Group represents the inventory of called loans and loans acquired through retention programs that remain unsold. We expect to exercise our option to call additional loans of approximately \$440 million in 2004, the exact timing and amount of which is dependent upon the future interest rate environment and borrower prepayment behavior.

### *Mortgage-Backed Securities, U.S. Treasury Securities and Agency Notes*

The Company's portfolio of mortgage-backed securities, U.S. Treasury securities and agency notes totaled \$1.8 billion and \$2.3 billion at December 31, 2003 and 2002, respectively. These securities are recorded at fair value. The Company invests in high quality mortgage-backed securities to provide net interest income. The extreme prepayment environment negatively impacted interest spreads on these securities for most of 2003; however spreads began to recover in the third quarter and rebounded solidly in the fourth quarter. At December 31, 2003, 94% of the portfolio was rated AAA with an expected weighted average life of 4.7 years. U.S. Treasury securities in the trading portfolio are purchased to hedge the interest rate risk associated with servicing-related assets, among other types of investments. AAA-rated principal-only securities are retained from securitizations or purchased in the secondary market to hedge MSR related assets. The Company periodically trades its hedging instruments to rebalance its portfolio into instruments we believe will most effectively hedge the underlying asset, after considering changing market conditions.

We estimate the fair value of our other investment grade and non-investment grade mortgage-backed securities based on market information, when available, or with discounted cash flow techniques using assumptions for credit losses, prepayment rates, and market yield requirements. For those securities used as hedges on our AAA-rated and agency interest-only securities, residual securities or MSRs, adjustments to the carrying value of the security are recorded through earnings (trading securities). Adjustments to the carrying value of all other securities (available for sale) are recorded as a component of other comprehensive income in shareholders' equity.



The fair value of other investment grade and non-investment grade securities by credit rating as of December 31, 2003 and 2002 follows:

	Current Face Value	Premium (Discount) to Face Value	Amortized Cost	Fair Value
			(In thousands)	
December 31, 2003				
Investment grade mortgage-backed securities:				
AAA .....	\$ 7,922	\$ 77	\$ 7,999	\$ 8,000
BBB .....	25,121	(1,546)	23,575	24,198
BBB— .....	4,000	(351)	3,649	3,649
Total other investment grade mortgage-backed securities .....	<u>\$37,043</u>	<u>\$ (1,820)</u>	<u>\$35,223</u>	<u>\$35,848</u>
Non-investment grade mortgage-backed securities:				
BB .....	\$ 9,016	\$ (1,292)	\$ 7,724	\$ 7,896
B .....	830	(644)	186	186
CCC .....	5,378	(4,487)	891	1,165
C .....	6,274	(4,453)	1,821	1,934
D .....	2,668	(1,992)	676	676
NR .....	830	(745)	85	85
Total other non-investment grade mortgage-backed securities .....	<u>\$24,996</u>	<u>\$ (13,613)</u>	<u>\$11,383</u>	<u>\$11,942</u>
December 31, 2002				
Investment grade mortgage-backed securities:				
AA .....	\$20,900	\$ (111)	\$20,789	\$22,133
A .....	2,352	(131)	2,221	2,445
BBB .....	18,978	(1,073)	17,905	18,450
BBB— .....	5,668	(378)	5,290	5,344
Total other investment grade mortgage-backed securities .....	<u>\$47,898</u>	<u>\$ (1,693)</u>	<u>\$46,205</u>	<u>\$48,372</u>
Non-investment grade mortgage-backed securities:				
BB .....	\$ 4,251	\$ (772)	\$ 3,479	\$ 3,661
B .....	877	(532)	345	351
CCC .....	9,462	(6,507)	2,955	2,955
NR .....	877	(533)	344	351
Total other non-investment grade mortgage-backed securities .....	<u>\$15,467</u>	<u>\$ (8,344)</u>	<u>\$ 7,123</u>	<u>\$ 7,318</u>

At December 31, 2003, of the total other investment grade and non-investment grade mortgage-backed securities, \$32.4 million was collateralized by prime loans, \$13.6 million by subprime loans and \$1.8 million by manufactured housing loans. The increase in other non-investment grade mortgage-backed securities compared to December 31, 2002 was primarily due to the retention of a BB rated, prime collateral security during the fourth quarter of 2003.

During the third quarter of 2002, we reclassified our portfolio of non-investment grade residual securities from available for sale to the trading classification. This reclassification was done so that our accounting results would more closely match our economic hedging activities. We also transferred to the trading classification



from the available for sale classification certain AAA-rated non-agency securities that are intended to hedge the interest rate risk associated with residual securities. The transfer of residual securities from available for sale to trading resulted in a \$4.0 million reclassification from accumulated other comprehensive income to gain on mortgage-backed securities.

The following table sets forth certain information regarding the weighted average yields and remaining contractual maturities of our mortgage-backed securities portfolio as of December 31, 2003:

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
(Dollars in thousands)										
<b>Mortgage-backed securities</b>										
AAA-rated and agency interest-only securities	\$—	—	\$ 476	9.07%	\$ 6,284	7.52%	\$ 139,419	7.09%	\$ 146,179	7.11%
AAA-rated principal-only securities	—	—	—	—	33	7.60%	8,485	6.28%	8,518	6.29%
AAA-rated agency securities	4	33.83%	105	8.26%	—	—	25,084	3.63%	25,193	3.65%
AAA-rated non-agency securities	—	—	—	—	—	—	1,407,984	4.45%	1,407,984	4.45%
AAA-rated agency notes	—	—	—	—	119,063	4.49%	24,626	5.59%	143,689	4.68%
Other investment grade mortgage-backed securities	—	—	5,518	5.88%	—	—	30,330	7.29%	35,848	7.07%
Total investment grade mortgage-backed securities	4	33.83%	6,099	6.17%	125,380	4.64%	1,635,928	4.74%	1,767,411	4.74%
Non-investment grade residual securities	—	—	3,081	20.00%	—	—	55,172	19.89%	58,253	19.90%
Other non-investment grade mortgage-backed securities	—	—	3,737	10.01%	—	—	8,205	15.79%	11,942	13.98%
Total non-investment grade mortgage-backed securities	—	—	6,818	14.52%	—	—	63,377	19.36%	70,195	18.89%
Total mortgage-backed securities	\$ 4	33.83%	\$12,917	10.58%	\$125,380	4.64%	\$1,699,305	5.29%	\$1,837,606	5.28%

Given prepayments on the underlying collateral of our mortgage-backed securities, we do not expect our mortgage-backed securities to remain outstanding throughout their contractual maturity periods. Therefore, contractual maturity is not a relevant measure of the timing of our future expected cash flows. Actual economic cash flows are expected to be received much sooner.



### *Mortgage Servicing and Mortgage Servicing Rights*

In addition to its own loans, IndyMac serviced \$30.8 billion of mortgage loans owned by others at December 31, 2003 with a weighted average coupon of 6.53%. In comparison, IndyMac serviced \$28.4 billion of mortgage loans owned by others at December 31, 2002 with a weighted average coupon of 7.56% and \$19.9 billion of mortgage loans owned by others at December 31, 2001 with a weighted average coupon of 8.28%. The table below shows the activity in the servicing portfolio during the years ended December 31, 2003 and 2002:

	Year Ended December 31,	
	2003	2002
Servicing Portfolio		
(In millions)		
Unpaid principal balance at beginning of period	\$ 28,376	\$ 29,472
Additions	21,269	15,649
Clean-up calls exercised	(1,612)	(159)
Loan payments and prepayments	(17,259)	(16,586)
Unpaid principal balance at end of period	<u>\$ 30,774</u>	<u>\$ 28,376</u>

The capitalized value of MSRs totaled \$443.7 million as of December 31, 2003 and \$300.5 million as of December 31, 2002, reflecting an increase of \$143.2 million. The table that follows shows the activity in our MSRs.

	Year Ended December 31,		
	2003	2002	2001
(In thousands)			
Balance at beginning of period	\$300,539	\$321,316	\$211,127
Additions	291,849	230,894	229,825
Conversion of MSRs to interest-only strips	(47,311)	(75,371)	—
Clean-up calls exercised	(10,256)	(685)	—
Scheduled amortization	(85,590)	(68,228)	(68,716)
Valuation (impairment)	(5,543)	(107,387)	(50,920)
Balance at end of period	<u>\$443,688</u>	<u>\$300,539</u>	<u>\$321,316</u>

Each quarter, we evaluate the MSRs for impairment in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." We first stratify our MSRs based on predominant risk characteristics, underlying loan type, interest rate type, and interest rate band. Then, for each stratum, we determine the fair value of MSRs using our valuation models, which are validated quarterly by third party opinions of value. If the carrying value exceeds the fair value by individual stratum, a valuation allowance is recorded as a charge to service fee income in current earnings. However, if such impairment is determined to be other-than-temporary and the recoverability of the value is remote, we recognize a direct write-down. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR asset and the related valuation allowance, precluding subsequent reversals. As of December 31, 2003, the valuation allowance on MSRs totaled \$59.5 million.

### *AAA-Rated and Agency Interest-Only Securities and Residuals*

We evaluate the carrying value of our AAA-rated and agency interest-only strips and residual securities by discounting estimated net future cash flows. For these securities, estimated net future cash flows are primarily based on assumptions related to prepayment speeds, in addition to expected credit loss assumptions on the residual securities.



A summary of the activity in the AAA-rated and agency interest-only strips and residual securities portfolios for the years ended December 31, 2003 and 2002 follows:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
AAA-rated securities and agency interest-only strips:		
Beginning balance .....	\$187,060	\$211,104
Retained investments from securitizations .....	47,791	36,389
Conversion of MSRs to interest-only strips .....	47,311	75,371
Clean-up calls exercised .....	(40,333)	(4,227)
Cash received, net of accretion .....	(51,129)	(51,961)
Valuation losses before hedges .....	<u>(44,521)</u>	<u>(79,616)</u>
Ending balance .....	<u>\$146,179</u>	<u>\$187,060</u>
Residual securities:		
Beginning balance .....	\$ 78,740	\$ 43,123
Retained investments from securitizations .....	23,526	73,944
Sales .....	(10,525)	(19,000)
Cash received net of accretion .....	(23,627)	(21,715)
Valuation (losses) gains before hedges .....	<u>(9,861)</u>	<u>2,388</u>
Ending balance .....	<u>\$ 58,253</u>	<u>\$ 78,740</u>

During 2002, we modified our agreement with one of the GSEs, resulting in the bifurcation of the fee we retain to service loans sold to the GSE. Previously, the entire contractual servicing fee was capitalized on the balance sheet as MSRs. Under the new agreement, the contractual servicing fee is separated into a reduced servicing fee of 25 basis points (the base servicing fee) and an excess yield strip for amounts above the base servicing fee. The base servicing fee continues to be capitalized as MSRs, while the excess yield strip is now included in trading securities and accounted for similar to the AAA-rated interest only securities. While the amount of the total servicing fees and related cash flow expected to be derived from servicing the loans were not impacted by the modification, the change in balance sheet classification will result in two primary benefits. First, the excess yield strip will be marked to market through the income statement, and will no longer be subject to the lower of cost or market limitations applicable to MSRs. This will directly align the hedge accounting treatment for the asset with actual economic hedging results. Second, the excess yield strip is now risk weighted at 100% for regulatory capital purposes instead of the higher requirement for MSRs. During 2003 and 2002, we reclassified \$47.3 million and \$75.4 million, respectively, of capitalized MSRs to trading securities pursuant to this agreement.



### Valuation of Servicing-Related Assets

AAA-rated and agency interest-only strips and residual securities are recorded at fair market value. MSRs are subject to lower of cost or market limitations. We determine the fair value of MSRs using our valuation models, which are validated quarterly by third party opinions of value. Relevant information and assumptions used to value the Company's servicing related assets at December 31, 2003 and 2002 are shown below:

	Actual					Valuation Assumptions				
	Book Value	Collateral Balance	Gross Wtd. Average Coupon	Servicing Fee/Interest Strip	3-Month Prepayment Speeds	Weighted Average Multiple	Lifetime Prepayment Speeds(1)	3-Month Prepayment Speeds(1)	Discount Yield	Remaining Cumulative Loss Rate(2)
(Dollars in thousands)										
<b>December 31, 2003</b>										
AAA-rated/agency interest-only strips	\$146,179	\$13,640,307	6.90%	0.38%	34.0%	2.81	17.2%	35.5%	9.8%	N/A
Prime residual securities	\$ 25,614	\$ 3,506,638	7.00%	1.48%	60.0%	0.49	26.3%	36.0%	15.8%	0.5%
Subprime residual securities	32,639	\$ 1,286,694	8.65%	4.34%	38.4%	0.58	33.4%	32.9%	23.6%	2.3%
Total non-investment grade residual securities	\$ 58,253									
MSRs(3)	\$443,688	\$30,773,545	6.53%	0.32%	31.0%	4.51	16.8%	31.5%	10.0%	N/A
<b>December 31, 2002</b>										
AAA-rated/agency interest-only strips	\$187,060	\$14,214,229	7.77%	0.53%	38.5%	2.48	23.6%	39.7%	8.7%	N/A
Prime residual securities	\$ 33,400	\$ 2,968,794	7.51%	1.44%	35.5%	0.78	18.9%	40.3%	15.2%	0.7%
Subprime residual securities	45,340	\$ 1,968,041	9.54%	4.21%	30.3%	0.55	32.1%	35.0%	27.1%	2.8%
Total non-investment grade residual securities	\$ 78,740									
MSRs	\$300,539	\$28,375,897	7.56%	0.33%	40.7%	3.21	22.0%	36.3%	9.5%	N/A

- (1) Assumed prepayment speeds are higher in the short term and lower in the long term based on the market forward curve for interest rates rising over the life of the asset.
- (2) As a percentage of the original pool balance, the actual cumulative loss rate to date totaled 0.06% and 1.43% for prime and subprime residuals, respectively, at December 31, 2003.
- (3) At December 31, 2003, the capitalized servicing asset was comprised of \$30.8 billion of loans serviced by us. In addition to the loans serviced for others, we also service \$6.1 billion of IndyMac-owned loans and loans subserviced for others on an interim basis for a total servicing portfolio of \$36.9 billion.

The lifetime prepayment speeds represent the annual constant prepayment rate ("CPR") we estimate for the remaining life of the collateral supporting the asset. For MSRs and AAA-rated and agency interest-only strips, we project prepayment rates using four-factor prepayment models which incorporate relative weighted average note rate, seasoning, seasonality and burn-out of the pool of loans relative to expectations of future rates implied by the market forward LIBOR/swap curve.

The weighted average multiple for MSRs, AAA-rated and agency interest-only strips and residual securities represents the book value divided by the product of collateral balance and servicing fee/interest strip. While the weighted average life of such assets is a function of the undiscounted cash flows, the multiple is a function of the discounted cash flows. With regard to AAA-rated and agency interest-only strips, the marketplace frequently uses calculated multiples to assess the overall impact valuation assumptions have on value. Collateral type, coupon, loan age and the size of the interest strip must be considered when comparing these multiples. The mix of collateral types supporting servicing-related assets is primarily non-conforming/conventional, which may make comparisons of the Company's MSR multiples misleading relative to peer multiples whose product mix is different.



Lifetime prepayment assumptions for AAA-rated and agency interest-only strips and MSRs decreased at December 31, 2003 compared to December 31, 2002. The decrease in the lifetime prepayment assumptions for AAA-rated and agency interest-only strips and MSRs reflects the impact of lower collateral note rates and the increase in interest rates at December 31, 2003 compared to December 31, 2002.

#### *Hedging Interest Rate Risk on Servicing-Related Assets*

With respect to the investment in servicing-related assets (AAA-rated and agency interest-only strips, non-investment grade residual securities and MSRs), the Company is exposed to interest rate risk as a result of other than predicted prepayment of loans. Our Investment Portfolio Group is responsible for the management of interest rate and prepayment risks in the Investment Portfolio, subject to policies and procedures established by, and oversight from, our management-level Asset and Liability Committee ("ALCO") and Board of Directors-level ALCO.

The objective of our hedging strategy is to mitigate the impact of changes in interest rates on the net economic value of the balance sheet and quarterly earnings, not to speculate on interest rates. As such, we manage the comprehensive interest rate risk of our servicing-related assets using financial instruments and our portfolio retention efforts. Historically, we have hedged servicing-related assets using a mix of securities on balance sheet, such as AAA-rated principal-only securities, buying and/or selling mortgage-backed or U.S. Treasury securities, as well as derivatives such as futures, floors, swaps, or options. Recently, clean-up call revenues and retention programs have also been added to our asset management program. As there are no hedge instruments that would be perfectly correlated with these hedged assets, we use a mix of the above instruments designed to correlate well with the hedged assets.

With interest rates continuing to be near historic low levels and exhibiting high volatility, the value of mortgage servicing remains low. Our recovery of impairment did not fully offset our derivative hedge losses. However, as shown in the servicing related assets segment results, our realization of income from clean-up calls and portfolio retention resulted in a positive return for the portfolio during the year. These activities are a direct result of the ownership of servicing rights and we consider those activities as a component of the portfolio performance.



The following breaks out the components of service fee income and the gain on mortgage-backed securities, net.

	Year Ended December 31,		
	2003	2002	Percentage Change
	(Dollars in thousands)		
Service fee income:			
Gross service fee income .....	\$105,063	\$ 96,286	9%
Amortization .....	(85,590)	(68,228)	25%
Service fee income net of amortization .....	19,473	28,058	(31)%
Valuation adjustments on MSRs .....	(5,543)	(107,387)	(95)%
Hedging (losses) gains .....	(30,011)	98,526	(130)%
Total service fee (expense) income .....	<u>\$ (16,081)</u>	<u>\$ 19,197</u>	<u>(184)%</u>
Net (loss) gain on securities:			
Realized gain on available-for-sale securities .....	\$ 2,080	\$ 7,606	(73)%
Impairment on available-for-sale securities .....	(2,336)	(2,513)	7%
Unrealized loss on AAA-rated and agency interest only strips and residual securities .....	(54,382)	(75,724)	28%
Transfer of residual securities to trading classification ....	—	4,029	(100)%
Transfer of instruments used to hedge AAA IOs and residual securities to trading .....	—	1,128	(100)%
Net gain on securities and other instruments used to hedge AAA-rated and agency interest-only strips and residual securities .....	<u>23,785</u>	<u>69,913</u>	<u>(66)%</u>
Total (loss) gain on mortgage-backed securities, net ...	<u>\$ (30,853)</u>	<u>\$ 4,439</u>	<u>(795)%</u>
Total Clean-Up Call and Retention Program Income .....	<u>\$ 82,215</u>	<u>\$ —</u>	

The clean-up call and retention program income totaling \$82.2 million in 2003 is recognized as a component of gain on sale and net interest income in the Investment Portfolio Group's mortgage banking activities. As shown in our segment results on page 28, the effect of the clean-up call and retention program activities allowed the mortgage servicing business to generate positive returns during the historic refinance boom in 2003.

### Construction Lending

IndyMac provides construction financing for individual consumers who are in the process of building their own home (consumer construction) and for residential subdivision developers (builder construction). With respect to consumer construction, the primary product is a construction-to-permanent residential mortgage loan. This product provides financing for the 9-12 month term of construction and automatically converts to a permanent mortgage loan at the end of construction. As a result, this product represents a hybrid activity between our portfolio lending activities and mortgage banking activities. The Company earns net interest income during the construction phase. When the loan converts to permanent status the loan is transferred into the Company's pipeline of mortgage loans held for sale. These loans are typically fixed-rate loans. Consumer construction loan originations in 2003 grew 35% over 2002. Increases in both origination channels (B2B and B2C) were driven by growth in active customers and marketing leads. The cost of funding an HCL construction loan increased in 2003 4% from December 31, 2002. Consumer construction loans outstanding at December 31, 2003 were \$1.1 billion, up 31% compared to the amount at December 31, 2002.

With respect to builder construction loans, our activities have been increasingly focused on those homebuilders that provide our mortgage loans to their customers when they sell the completed residence.



Builder construction loans are typically based on prime rates. Builder loans outstanding, including construction and land and other mortgage loans, was comparable to December 31, 2002 at \$605 million. A substantial portion of our builder construction loans is secured by corporate or personal guarantees of the builders as well as the real estate.

The following tables present further information on our construction loan portfolios.

	Year Ended December 31,			
	2003		2002	
	Consumer Construction Loans	Builder Construction Loans	Consumer Construction Loans	Builder Construction Loans
	(Dollars in thousands)			
Construction loans .....	\$1,145,526	\$ 484,397	\$ 875,335	\$ 482,408
Land and other mortgage loans .....	\$ 87,045	\$ 120,751	\$ 81,885	\$ 123,066
Outstanding commitments .....	\$2,091,853	\$1,120,893	\$1,531,011	\$1,104,160
Average construction loan and land commitments .....	\$ 391	\$ 3,046	\$ 415	\$ 1,982
Non-performing loans .....	0.78%	1.60%	1.08%	2.92%
Annual yield on construction loans .....	6.32%	6.75%	7.61%	7.17%
Fixed-rate loans .....	98%	1%	94%	1%
Adjustable-rate loans .....	0%	97%	0%	96%
Hybrid adjustable-rate loans .....	2%	2%	6%	3%

#### Additional Information as of December 31, 2003

	Consumer Construction Loans		Builder Construction Loans
Average loan-to-value ratio(1) . . . . .	74%		69%
Average FICO score(2) . . . . .	706		N/A
Geographic distribution(3)			
Southern California . . . . .	31%	Southern California . . . . .	45%
Northern California . . . . .	18%	Northern California . . . . .	24%
New York . . . . .	6%	Illinois . . . . .	13%
Hawaii . . . . .	4%	Florida . . . . .	6%
Florida . . . . .	4%	Other (each individually < 2%)	12%
Colorado . . . . .	3%	Total Builder Construction . . . . .	<u>100%</u>
New Jersey . . . . .	3%		
Nevada . . . . .	3%		
Washington . . . . .	3%		
Connecticut . . . . .	3%		
Other (each individually < 2%) . .	<u>22%</u>		
Total Consumer Construction . . . . .	100%		

- (1) The average loan-to-value ratio is based on the estimated appraised value of the completed project compared to the commitment amount at December 31, 2003.
- (2) FICO scores are not calculated for corporate entities and, therefore, are not applicable to the builder construction portfolio.
- (3) Geographic distribution is based on outstanding balances. Some projects are continuing to be built out in states in which we no longer solicit new loans.

For information related to the Company's balance of non-performing assets and related credit reserves, see discussion in "Credit Risk and Reserves" below.



The table below indicates the contractual maturities of our construction loans as of December 31, 2003:

	Due Within One Year	After One but Within Five Years (In thousands)	Total Unpaid Principal Balance
Builder construction loans .....	\$ 412,718	\$74,587	\$ 487,305
Consumer construction loans .....	1,124,619	17,820	1,142,439
Total construction loan portfolio .....	<u>\$1,537,337</u>	<u>\$92,407</u>	<u>\$1,629,744</u>

### HELOC Activities

We successfully grew our HELOC portfolio 127% from \$313 million as of December 31, 2002, to \$711 million as of December 31, 2003. The majority of the year's HELOC production was driven by our internal channels, which produced 10,462 HELOC commitments primarily through our B2B and B2C business channels. We also embarked on a direct to customer mailing campaign, which produced 3,456 HELOC commitments. All HELOC loans are adjustable rate loans indexed to the prime rate at December 31, 2003.

The majority of the HELOC volume in 2003 was produced concurrently with a first mortgage. However, we believe that the declining market for mortgage refinancing will drive stronger levels of stand-alone HELOC production as homeowners look for alternatives to access their home equity.

In response to this accelerating growth and to capitalize on the market's shift to HELOCs, we are establishing and expanding a HELOC dedicated sales staff to work concurrently with our business units and to manage HELOC directed sales efforts. The HELOC division is also working with our business units to develop new Home Equity products to more aggressively penetrate identified niche markets.

The following table presents information on our HELOCs as of December 31, 2003 and 2002.

	December 31, 2003	December 31, 2002
	(Dollars in thousands)	
Outstanding book value .....	\$ 711,494	\$312,881
Outstanding commitments(1) .....	\$1,189,213	\$459,537
Average spread over prime .....	1.92%	1.78%
Non-performing loans .....	0.17%	0.21%
Average FICO score .....	710	711
Average CLTV ratio(2) .....	77%	78%

### Additional Information as of December 31, 2003

CLTV	Total Outstanding Book Value	Average Loan Commitment Balance	Average Spread Over Prime	Average FICO	30+ Days Delinquency Percentage
	(Dollars in thousands)				
≥ 96% & ≤ 100% .....	\$ 17,332	\$47	4.43%	723	1.33%
≥ 91% & ≤ 95% .....	93,495	50	3.53%	715	0.40%
≥ 81% & ≤ 90% .....	281,807	51	2.34%	695	0.76%
≥ 71% & ≤ 80% .....	178,700	81	1.00%	712	0.84%
70% .....	140,160	86	0.87%	726	0.37%
Total .....	<u>\$711,494</u>				

(1) On funded loans.

(2) The CLTV combines the loan-to-value on both the first mortgage loan and the HELOC.



## NET INTEREST INCOME

The following table sets forth information regarding our consolidated average balance sheets (Mortgage Bank, Investment Portfolio and Consumer Bank are combined), along with the total dollar amounts of interest income and interest expense and the weighted average interest rates for the periods presented. Average balances are calculated on a daily basis. Non-performing loans are included in the average balances for the periods presented. The allowance for loan losses is excluded from the average loan balances.

	Year Ended December 31,								
	2003			2002			2001		
	Average Balance	Interest	Yield Rate	Average Balance	Interest	Yield Rate	Average Balance	Interest	Yield Rate
	(Dollars in thousands)								
Securities .....	\$ 1,794,630	\$ 83,903	4.68%	\$1,828,694	\$112,065	6.13%	\$1,397,314	\$121,867	8.72%
Loans held for sale .....	3,438,677	214,338	6.23%	2,222,838	148,498	6.68%	2,262,676	177,982	7.87%
Mortgage loans held for investment .....	3,680,554	170,290	4.63%	1,707,409	111,450	6.53%	1,738,432	138,793	7.98%
Builder construction and income property .....	549,582	37,114	6.75%	595,711	42,726	7.17%	537,068	58,522	10.90%
Consumer construction	956,211	60,392	6.32%	731,476	55,660	7.61%	525,384	42,241	8.04%
Investment in Federal Home Loan Bank stock and other .....	255,050	9,804	3.84%	144,028	6,705	4.66%	106,266	5,535	5.21%
Total interest- earning assets ...	10,674,704	575,841	5.39%	7,230,156	477,104	6.60%	6,567,140	544,940	8.30%
Other .....	1,037,578			721,659			550,544		
Total assets .....	<u>\$11,712,282</u>			<u>\$7,951,815</u>			<u>\$7,117,684</u>		
Interest-bearing deposits	\$ 3,162,221	87,828	2.78%	\$2,665,942	105,188	3.95%	\$1,909,159	98,781	5.17%
Advances from Federal Home Loan Bank .....	3,820,076	113,032	2.96%	2,092,972	101,647	4.86%	1,638,151	95,222	5.81%
Other borrowings .....	2,697,909	64,044	2.37%	1,710,659	60,981	3.56%	2,640,429	148,315	5.62%
Total interest- bearing liabilities	9,680,206	264,904	2.74%	6,469,573	267,816	4.14%	6,187,739	342,318	5.53%
Other .....	1,096,006			618,466			167,684		
Total liabilities .....	10,776,212			7,088,039			6,355,423		
Shareholders' equity	936,070			863,776			762,261		
Total liabilities and shareholders' equity .....	<u>\$11,712,282</u>			<u>\$7,951,815</u>			<u>\$7,117,684</u>		
Net interest income ....		<u>\$310,937</u>			<u>\$209,288</u>			<u>\$202,622</u>	
Net interest spread .....			<u>2.66%</u>			<u>2.46%</u>			<u>2.77%</u>
Net interest margin ....			<u>2.91%</u>			<u>2.89%</u>			<u>3.09%</u>
Return on average equity .....			<u>18.30%</u>			<u>16.60%</u>			<u>15.27%</u>
Return on average assets			<u>1.46%</u>			<u>1.80%</u>			<u>1.64%</u>

The net interest spread and margin during 2003 widened from that of 2002. The yield on interest earning assets declined during the year due to high prepayment speeds, although the effect of the prepayments during the year was partially offset by recently acquired higher yielding clean-up call loans. However, our cost of funds decreased faster than the yield on assets, resulting in a higher spread and higher margin. The decrease in



cost of funds was largely the result of the repricing of higher interest rate CDs and term FHLB advances to lower rates.

The dollar amounts of interest income and interest expense fluctuate depending upon changes in the average balances and interest rates of interest-earning assets and interest-bearing liabilities. The following table details changes attributable to:

- changes in volume (changes in average outstanding balances multiplied by the prior period's rate),
- changes in the rate (changes in the average interest rate multiplied by the prior period's volume), and
- changes in rate/volume ("mix") (changes in rates times the changes in volume).

	Year Ended December 31, 2003 vs 2002			
	Increase/(Decrease) Due to			Total Change
	Volume	Rate	Mix	
	(In thousands)			
<b>Interest income:</b>				
Securities.....	\$ (2,087)	\$ (26,570)	\$ 495	\$(28,162)
Loans held for sale.....	81,225	(9,946)	(5,439)	65,840
Mortgage loans held for investment.....	128,796	(32,453)	(37,503)	58,840
Builder construction and income property.....	(3,308)	(2,497)	193	(5,612)
Consumer construction.....	17,100	(9,461)	(2,907)	4,732
Investment in Federal Home Loan Bank stock and other.....	5,169	(1,169)	(901)	3,099
Total interest income.....	226,895	(82,096)	(46,062)	98,737
<b>Interest expense:</b>				
Interest-bearing deposits.....	19,581	(31,143)	(5,798)	(17,360)
Advances from Federal Home Loan Bank.....	83,878	(39,718)	(32,775)	11,385
Other borrowings.....	35,193	(20,373)	(11,757)	3,063
Total interest expense.....	138,652	(91,234)	(50,330)	(2,912)
Net interest income.....	\$ 88,243	\$ 9,138	\$ 4,268	\$101,649

	Year Ended December 31, 2002 vs 2001			
	Increase/(Decrease) Due to			
	Volume	Rate	Mix	Total Change
	(In thousands)			
<b>Interest income:</b>				
Securities	\$ 37,623	\$(36,238)	\$(11,187)	\$ (9,802)
Loans held for sale	(3,134)	(26,822)	472	(29,484)
Builder construction and income property	(2,477)	(25,318)	452	(27,343)
Consumer construction	6,390	(20,002)	(2,184)	(15,796)
Residential construction loans	16,570	(2,263)	(888)	13,419
Investment in Federal Home Loan Bank stock and other	1,967	(588)	(209)	1,170
Total interest income	56,939	(111,231)	(13,544)	(67,836)
<b>Interest expense:</b>				
Interest-bearing deposits	39,156	(23,452)	(9,297)	6,407
Advances from Federal Home Loan Bank	26,438	(15,664)	(4,349)	6,425
Other borrowings	(52,226)	(54,190)	19,082	(87,334)
Total interest expense	13,368	(93,306)	5,436	(74,502)
Net interest income	\$ 43,571	\$ (17,925)	\$ (18,980)	\$ 6,666



## OVERALL INTEREST RATE RISK MANAGEMENT

In addition to our hedging activities to mitigate the interest rate risk in our pipeline of mortgage loans held for sale and our investment in servicing-related assets, we perform extensive overall interest rate risk analyses. The primary measurement tool used to evaluate interest rate risk over the comprehensive balance sheet is a net portfolio value ("NPV") analysis that simulates the effects changes in interest rates have on the fair value of shareholders' equity.

The following table sets forth the NPV and change in NPV that we estimate might result from a 100 basis point change in interest rates as of December 31, 2003 and 2002. Our NPV model has been built to focus on the Bank alone as the \$157.2 million of assets at the holding company have very little interest rate risk exposure.

	December 31, 2003			December 31, 2002		
	Fair Value	Effect of Change in Interest Rates		Fair Value	Effect of Change in Interest Rates	
		Decrease 100 bps	Increase 100 bps		Decrease 100 bps	Increase 100 bps
		(Dollars in thousands)				
Cash and cash equivalents . . . .	\$ 111,203	\$ 111,203	\$ 111,203	\$ 196,589	\$ 196,589	\$ 196,589
Trading securities . . . . .	206,484	180,197	228,880	728,602	729,055	727,761
Available for sale securities . . . .	1,611,958	1,662,715	1,553,103	1,563,648	1,572,911	1,542,879
Loans held for sale . . . . .	2,573,248	2,606,028	2,519,059	2,249,088	2,313,001	2,170,046
Loans held for investment . . . . .	7,396,475	7,448,389	7,304,464	3,883,039	3,913,596	3,844,944
MSRs . . . . .	443,688	311,777	534,672	300,539	226,834	365,046
Other assets . . . . .	683,213	697,356	669,062	465,046	473,382	459,294
Derivatives . . . . .	106,119	91,598	169,246	72,445	67,868	104,189
Total assets . . . . .	<u>\$13,132,388</u>	<u>\$13,109,263</u>	<u>\$13,089,689</u>	<u>\$9,458,996</u>	<u>\$9,493,236</u>	<u>\$9,410,748</u>
Deposits . . . . .	\$ 4,367,400	\$ 4,404,900	\$ 4,335,433	\$3,177,911	\$3,217,410	\$3,139,628
Advances from Federal Home Loan Bank . . . . .	4,949,477	4,979,962	4,919,147	2,786,237	2,820,402	2,753,314
Other borrowings . . . . .	2,438,695	2,440,538	2,436,665	2,493,168	2,495,465	2,490,801
Other liabilities . . . . .	156,711	156,800	156,599	140,853	140,897	140,741
Total liabilities . . . . .	<u>11,912,283</u>	<u>11,982,200</u>	<u>11,847,844</u>	<u>8,598,169</u>	<u>8,674,174</u>	<u>8,524,484</u>
Shareholders' equity (NPV) . . . .	<u>\$ 1,220,105</u>	<u>\$ 1,127,063</u>	<u>\$ 1,241,845</u>	<u>\$ 860,827</u>	<u>\$ 819,062</u>	<u>\$ 886,264</u>
% Change from base case . . . . .		<u>(7.63)%</u>	<u>1.78%</u>		<u>(4.85)%</u>	<u>2.95%</u>

Retained earnings of \$167.5 million contributed significantly to the \$359.3 million increase in the Bank's NPV during the year ended December 31, 2003. This increase also reflects deployment of capital primarily through additions to the SFR mortgage held for investment portfolio. Additionally, the NPV has improved as the Bank's funding mix has become better matched to the related assets through the maturity and subsequent repricing of fixed rate FHLB advances and certificates of deposit in addition to the use of liability hedging strategies. A deposit mix more heavily weighted towards lower cost transaction accounts has also added to the NPV. It should be noted that this analysis does not reflect changes in volumes and profits from our mortgage banking operations that would be expected to result from the interest rate environment.

The assumptions inherent in our interest rate shock models include valuation changes in an instantaneous and parallel rate shock and assumptions as to the degree of correlation between the hedges and hedged assets and liabilities. These assumptions may not adequately reflect factors such as the spread-widening or spread-tightening risk among the changes in rates on Treasury, LIBOR/swap curve and mortgages. In addition, the sensitivity analysis described in the prior paragraph is limited by the fact that it is performed at a particular point in time and does not incorporate other factors that would impact our financial performance in these scenarios, such as increases in income associated with the increase in production volume that could result from



a decrease in interest rates. Consequently, the preceding estimates should not be viewed as a forecast, and it is reasonable to expect that actual results could vary significantly from the analyses discussed above.

The Company's Board of Directors-level and management-level ALCOs monitor our hedging activities to determine whether the value of our hedge positions, their correlation to the balance sheet item being hedged, and the amounts being hedged, continue to provide effective protection against interest rate risk. While there can be no assurances that our interest rate management strategies will be effective, we believe we have adequate internal controls to monitor and manage our interest rate risk within reasonable levels.

### CREDIT RISK AND RESERVES

The following table presents the details of our loan portfolio.

	Year Ended December 31,									
	2003		2002		2001		2000		1999	
	Balance	% of Total Loans	Balance	% of Total Loans	Balance	% of Total Loans	Balance	% of Total Loans	Balance	% of Total Loans
(Dollars in thousands)										
SFR mortgage loans . . . .	\$ 5,587,409	55.7%	\$2,311,753	37.4%	\$1,168,808	23.0%	\$1,002,640	24.8%	\$ 662,095	21.4%
Land and other mortgage	126,044	1.3%	130,455	2.1%	327,100	6.4%	283,311	7.0%	191,470	6.2%
Builder construction and income property loans	520,682	5.2%	546,461	8.8%	654,889	12.9%	611,745	15.1%	807,973	26.1%
Consumer construction loans . . . . .	<u>1,145,526</u>	<u>11.4%</u>	<u>875,335</u>	<u>14.1%</u>	<u>725,200</u>	<u>14.3%</u>	<u>372,394</u>	<u>9.2%</u>	<u>249,618</u>	<u>8.0%</u>
Total core held for investment loans . . . .	7,379,661	73.6%	3,864,004	62.4%	2,875,997	56.6%	2,270,090	56.1%	1,911,156	61.7%
Discontinued product lines(1) . . . . .	<u>69,524</u>	<u>0.7%</u>	<u>97,644</u>	<u>1.6%</u>	<u>120,360</u>	<u>2.4%</u>	<u>349,757</u>	<u>8.7%</u>	<u>570,822</u>	<u>18.4%</u>
Total held for investment portfolio	7,449,185	74.3%	3,961,648	64.0%	2,996,357	59.0%	2,619,847	64.8%	2,481,978	80.1%
Total held for sale portfolio . . . . .	<u>2,573,248</u>	<u>25.7%</u>	<u>2,227,683</u>	<u>36.0%</u>	<u>2,080,763</u>	<u>41.0%</u>	<u>1,420,772</u>	<u>35.2%</u>	<u>615,243</u>	<u>19.9%</u>
Total loans . . . . .	<u>\$10,022,433</u>	<u>100.0%</u>	<u>\$6,189,331</u>	<u>100.0%</u>	<u>\$5,077,120</u>	<u>100.0%</u>	<u>\$4,040,619</u>	<u>100.0%</u>	<u>\$3,097,221</u>	<u>100.0%</u>

(1) Discontinued product lines include manufactured home loans, home improvement and warehouse lending, which were discontinued during 1999.



The following table summarizes our allowance for loan losses/credit discounts and non-performing assets as of December 31, 2003.

Type of Loan	Book Value	Allowance For Loan Losses	Credit Discounts	Total Reserves as a Percentage of Book Value	Non- Performing Assets	Net Charge-Offs/ Net REO (Gains) Losses	
						2003	2002
						(Dollars in thousands)	
<b>Held for investment portfolio</b>							
SFR mortgage loans and HELOCs .....	\$ 5,587,409	\$20,038	\$ —	0.36%	\$ 12,414	\$ 3,888	\$ 5,783
Land and other mortgage .....	126,044	3,167	—	2.51%	71	11	1,658
Builder construction and income property .....	520,682	12,509	—	2.40%	9,704	3,268	2,584
Consumer construction .....	<u>1,145,526</u>	<u>9,930</u>	<u>—</u>	<u>0.87%</u>	<u>8,954</u>	<u>1,378</u>	<u>238</u>
Total core held for investment loans .....	7,379,661	45,644	—	0.62%	31,143	8,545	10,263
Discontinued product lines(1) .....	<u>69,524</u>	<u>7,001</u>	<u>—</u>	<u>10.07%</u>	<u>6,449</u>	<u>9,271</u>	<u>12,831</u>
Total held for investment portfolio .....	7,449,185	<u>\$52,645</u>	—	0.71%	37,592	17,816	23,094
<b>Held for sale portfolio .....</b>	<u>2,587,240</u>		<u>13,992</u>	<u>0.54%</u>	<u>38,855</u>	<u>—</u>	<u>—</u>
Total loans .....	<u>\$10,036,425</u>		<u>\$13,992</u>	<u>0.66%</u>	<u>76,447</u>	<u>\$17,816</u>	<u>\$23,094</u>
<b>Foreclosed assets</b>							
Core portfolios .....					22,325	\$(2,261)	\$(1,777)
Discontinued product lines .....					<u>1,352</u>	<u>(27)</u>	<u>(1,401)</u>
Total foreclosed assets .....					<u>23,677</u>	<u>\$(2,288)</u>	<u>\$(3,178)</u>
Total non-performing assets .....					<u>\$100,124</u>		
Total non-performing assets as a percent age of total assets .....					0.76%		



The following table provides additional comparative data on non-performing assets.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Loans held for investment					
Portfolio loans					
SFR mortgage loans .....	\$ 12,414	\$ 15,097	\$ 21,354	\$ 32,261	\$ 49,652
Land and other mortgage loans .....	71	8,376	7,514	3,838	1,553
Builder construction and income property loans .....	9,704	9,275	21,347	30,275	22,332
Consumer construction .....	8,954	10,257	6,722	2,551	2,906
Total core portfolio non-performing loans .....	31,143	43,005	56,937	68,925	76,443
Discontinued product lines .....	6,449	10,005	15,894	15,454	19,017
Total portfolio non-performing loans ..	37,592	53,010	72,831	84,379	95,460
Non-performing loans held for sale .....	38,855	10,626	24,036	13,235	8,706
Total non-performing loans .....	76,447	63,636	96,867	97,614	104,166
Foreclosed assets .....	23,677	36,526	19,372	16,265	22,323
Total non-performing assets .....	\$100,124	\$100,162	\$116,239	\$113,879	\$126,489
Total non-performing assets to total assets ...	0.76%	1.05%	1.55%	1.98%	3.39%
Allowance for loan losses to non-performing loans held for investment .....	140%	96%	79%	70%	56%



The following shows the activity in the allowance for loan losses during the indicated periods:

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
<b>Core portfolio loans</b>					
Balance, beginning of period .....	\$41,314	\$ 41,770	\$ 43,350	\$37,916	\$ 40,261
Provision for loan losses .....	12,875	9,807	5,985	7,114	15
Charge-offs net of recoveries					
SFR mortgage loans .....	(3,888)	(5,783)	(3,073)	(1,006)	(1,325)
Land and other mortgage loans .....	(11)	(1,658)	—	—	(223)
Builder construction .....	(3,268)	(2,584)	(3,879)	(462)	(260)
Consumer construction .....	(1,378)	(238)	(613)	(212)	(552)
Charge-offs net of recoveries .....	(8,545)	(10,263)	(7,565)	(1,680)	(2,360)
Balance, end of period .....	45,644	41,314	41,770	43,350	37,916
<b>Discontinued product lines</b>					
Balance, beginning of period .....	9,447	15,930	15,612	15,964	10,996
Provision for loan losses .....	6,825	6,348	16,037	8,860	17,458
Charge-offs net of recoveries .....	(9,271)	(12,831)	(15,719)	(9,212)	(12,490)
Balance, end of period .....	7,001	9,447	15,930	15,612	15,964
Total allowance for loan losses .....	<u>\$52,645</u>	<u>\$ 50,761</u>	<u>\$ 57,700</u>	<u>\$58,962</u>	<u>\$ 53,880</u>
Charge-offs to average loans .....	0.25%	0.45%	0.46%	0.29%	0.41%
<b>Core portfolio loans only:</b>					
Charge-offs to average loans .....	0.12%	0.20%	0.16%	0.05%	0.07%

The overall adequacy of the allowance for loan losses is based on the allowance in its entirety. The allocation amongst the various loan products is representative of our judgments and assumptions at a specific point in time and may be reallocated in the future based on changes in performance and other circumstances.



Allocation of the allowance for loan losses to each category, and the corresponding percentage of the loan category, at the dates indicated are as follows:

	Year Ended December 31,									
	2003		2002		2001		2000		1999	
	Balance	% of Loan Category	Balance	% of Loan Category	Balance	% of Loan Category	Balance	% of Loan Category	Balance	% of Loan Category
(Dollars in thousands)										
Portfolio loans:										
SFR mortgage loans	\$20,038	0.4%	\$13,053	0.6%	\$11,659	1.0%	\$13,616	1.4%	\$11,544	1.7%
Land and other mortgage loans	3,167	2.5%	2,555	2.0%	4,541	1.4%	3,405	1.2%	3,030	1.6%
Builder construction and income property loans	12,509	2.4%	15,334	2.8%	18,155	2.8%	20,584	3.4%	19,880	2.5%
Consumer construction loans	9,930	0.9%	10,372	1.2%	7,415	1.0%	5,745	1.5%	3,462	1.4%
Total portfolio loans	45,644	0.6%	41,314	1.1%	41,770	1.5%	43,350	1.9%	37,916	2.0%
Discontinued product lines	7,001	10.1%	9,447	9.7%	15,930	13.2%	15,612	4.5%	15,964	2.8%
Total allowance for loan losses	<u>\$52,645</u>	<u>0.7%</u>	<u>\$50,761</u>	<u>1.3%</u>	<u>\$57,700</u>	<u>1.9%</u>	<u>\$58,962</u>	<u>2.3%</u>	<u>\$53,880</u>	<u>2.2%</u>

Total credit-related reserves, including the allowance for loan losses and the market valuations, amounted to \$66.6 million at December 31, 2003, compared to \$57.7 million at December 31, 2002. The allowance for loan losses of \$52.6 million for loans held for investment at December 31, 2003 represented 0.71% of total loans held for investment. This compares to an allowance for loan losses of \$50.8 million, or 1.28% of total loans held for investment, at December 31, 2002. Charge-offs were significantly improved during 2003, both in our core and non-core portfolios. Total net charge-offs of \$17.8 million were down 23% relative to 2002. This improved credit performance combined with the fact that the substantial loan portfolio growth consists predominantly of high quality SFR mortgage loans held for investment, which have low expected defaults and loss severities, support a lower ratio of allowance to total loans. In relation to annual charge-offs, our coverage improved year over year with the allowance representing 3.0 times annual charge-offs at December 31, 2003 compared with 2.2 times annual charge-offs at December 31, 2002.

Loans are generally placed on non-accrual status when they are 90 days past due. Non-performing assets include non-performing loans and foreclosed assets. The balance of our assets acquired in foreclosure or by deed in lieu of foreclosure is recorded at estimated net realizable value. The ratio of non-performing assets to total assets improved to 0.76% at December 31, 2003 from 1.05% at December 31, 2002. Total non-performing assets were similar to amounts at December 31, 2002 at \$100.1 million, however, non-performing loans increased \$12.8 million while foreclosed assets decreased \$12.8 million. The decrease in foreclosed assets was largely the result of liquidations. The increase in non-performing loans was driven by a \$28.2 million increase in mortgage loans held for sale primarily due to the loans acquired through clean-up calls exercised during the second half of 2003. The held for sale clean-up call non-performing loans amounted to \$21.0 million at December 31, 2003, which accounted for 54% of the total non-performing loans held for sale. Non-performing loans held for investment decreased \$15.4 million to \$37.6 million which can be attributed to overall improved credit quality, strong asset management, and select sales of non-performing loans to third parties.

As master servicer for our various securitizations, we retain the right to call the securities when the outstanding loan balance in the securitization trust declines to a specified level, typically 10%, of the original balance. When the fair value of performing loans remaining within a securitization exceeds the expected losses on non-performing loans and the cost of exercise, we will typically exercise our option to call. A portion of the loans we acquired pursuant to clean-up calls was delinquent or non-performing. At December 31, 2003, total



non-performing assets acquired through clean-up calls amounted to \$26.6 million, of which \$21.0 million is non-performing loans included in loans held for sale. We anticipate that approximately \$440 million in loans will be eligible for clean-up calls during 2004. Therefore, it is possible that the absolute levels of non-performing loans held by us may increase temporarily between the time of the call exercise and the disposition of these loans.

With respect to the portfolio of loans held for investment in IndyMac's core businesses, the allowance for loan losses at December 31, 2003 was \$45.6 million or 0.62% of the loan balance, compared to 1.1% of the total loan balance at December 31, 2002. The lower coverage ratio is supported by the overall asset quality improvement in this portfolio. Non-performing loans in this portfolio decreased by \$11.9 million from \$43.0 million at December 31, 2002 to \$31.1 million at December 31, 2003. Included in the non-performing loan balance at December 31, 2003 is a matured construction loan in the amount of \$9.2 million. Given the current value of the collateral and the credit of the guaranty, we do not expect to incur any losses on this loan at this time.

With respect to IndyMac's non-core liquidating portfolios, consisting primarily of manufactured housing and home improvement loans, net charge-offs totaled \$9.3 million for year ended 2003, down from the \$12.8 million of charge-offs on these portfolios for the year ended 2002. After provision for loan losses of \$6.8 million, the allowance for loan losses was \$7.0 million, or 10.1% of the remaining principal balance of such liquidating portfolios, compared to the 9.7% reserve coverage at December 31, 2002.

Our determination of the level of the allowance for loan losses and, correspondingly, the provision for loan losses, is based on management's judgments and assumptions regarding various matters, including general economic conditions, loan portfolio composition, delinquency trends and prior loan loss experience. In assessing the adequacy of the allowance for loan losses, management reviews the performance in the portfolios of loans held for investment and the non-core portfolio of discontinued product lines which consists primarily of manufactured housing loans and home improvement loans.

While we consider the allowance for loan losses to be adequate based on information currently available, future adjustments to the allowance may be necessary due to changes in economic conditions, delinquency levels, foreclosure rates, or loss rates. The level of our allowance for loan losses is also subject to review by our primary federal regulator, the Office of Thrift Supervision ("OTS"). The OTS may require that our allowance for loan losses be increased based on its evaluation of the information available to it at the time of its examination of the Bank.

With respect to mortgage loans held for sale, we do not provide an allowance for loan losses, pursuant to the applicable accounting rules. Instead, a component for credit risk related to loans held for sale is embedded in the market valuation for these loans. Market valuation adjustments on loans held for sale totaled \$14.0 million at December 31, 2003.

## SECONDARY MARKET RESERVE

We do not sell loans with recourse in our loan sale activities. However, we can be required to repurchase loans from investors when our loan sales contain individual loans that are not in conformity with the representations and warranties we make at the time of sale. We have made significant investments in our pre-production and post-production quality control processes to identify potential systemic issues that could cause repurchases. We believe that these efforts have improved our production quality; however, increases in default rates due to an economic slowdown could cause the overall rate of repurchases to remain constant or even increase. Since inception in 1993, the Company has repurchased only a very small amount of loans from its securitization trusts. The increase in repurchase activity in recent years has been primarily a function of IndyMac's diversification of its loan sale channels to whole loan and GSE sales. While sales through these channels generate enhanced cash flows, they tend to have a greater level of representation and warranty risk.



The following table shows the amount of loans we have repurchased from each distribution channel, since the Company began active lending operations in January 1993.

	<u>Amount Repurchased</u>	<u>Total Sold</u>	<u>Percentage Repurchased</u>
	(Dollars in millions)		
Loans sold:			
GSEs and whole loans .....	\$86.4	\$53,910	0.16%
Securitization trusts .....	<u>8.5</u>	<u>44,112</u>	0.02%
Total .....	<u>\$94.9</u>	<u>\$98,022</u>	0.10%

The Company maintains secondary market reserves for losses that arise in connection with loans that we are required to repurchase from whole loan sales or securitization transactions. These reserves, which totaled \$34.0 million at December 31, 2003, have two general components: reserves for repurchases arising from representation and warranty claims, and reserves for disputes with investors and vendors with respect to contractual obligations pertaining to mortgage operations. See further discussion on legal matters associated with loans sold in "Note 20 — Commitments and Contingencies" included in the Company's consolidated financial statements incorporated herein. The table below shows the activity in the reserves during the years ended December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
	(In thousands)	
Balance, beginning of period, .....	\$ 37,636	\$ 42,956
Additions/provisions .....	26,706	18,679
Claims reimbursement and estimated discounts on loans held for sale/charge-offs .....	<u>(30,342)</u>	<u>(23,999)</u>
Balance, end of period .....	<u>\$ 34,000</u>	<u>\$ 37,636</u>

Reserve levels are a function of expected losses based on actual pending claims and repurchase requests, historical experience, loan volume and loan sales distribution channels and the assessment of probable vendor or investor claims. While the ultimate amount of repurchases and claims is uncertain, management believes that the reserves are adequate. We will continue to evaluate the adequacy of our reserves and may continue to allocate a portion of its gain on sale proceeds to these reserves going forward. The entire balances of our secondary market reserves are included on the consolidated balance sheets as a component of other liabilities.



## OPERATING EXPENSES

### *General*

A summary of operating expenses follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Salaries and related .....	\$228,931	\$202,030	\$168,961
Premises and equipment .....	35,899	30,946	23,994
Loan purchase costs .....	29,916	23,349	17,014
Professional services .....	20,706	22,997	16,481
Data processing .....	36,236	20,500	16,069
Office .....	22,925	18,151	15,371
Advertising and promotion .....	26,803	13,705	10,575
Operations and sale of foreclosed assets .....	4,572	1,216	2,341
Other .....	18,617	11,164	7,395
	<u>\$424,605</u>	<u>\$344,058</u>	<u>\$278,201</u>

General and administrative expenses, including salaries, increased during the year ended December 31, 2003 to \$424.6 million, compared to \$344.1 million during the same period in 2002. The increase was largely driven by increases in salaries and infrastructure and technology related expenses as a result of the Company's significantly increased mortgage loan production and operational expansions. Mortgage loan production increased 44% year over year, from \$20.9 billion for the year ended December 31, 2002 to \$30.0 billion for the year ended December 31, 2003. In a continuing effort to penetrate the market and gain market share, the Company also incurred costs to expand its sales force infrastructure with dedicated resources focused on new customer activation, customer training and support, and to improve its conversion of loan submissions to fundings. As a result of the increased production volume and investments made in sales and customer service, the Company's average full-time equivalent employees increased during the year by 32%, from 2,938 during the year ended December 31, 2002 to 3,882 during the year ended December 31, 2003. Additionally, the Company increased its investment in direct marketing costs during 2003 to further promote its new product offerings, subprime and HELOC products. Furthermore, during 2003 the Company made investments in data processing costs to (1) enhance its quality controls and compliance structure to ensure continued improvement in asset quality and support the growth of higher margin products; (2) strengthen its technology platform; and (3) enhance its customer service response performance.

Despite the increase in operation expenses during 2003, our efficiency ratio has remained comparable to 2002 at 58%.

### *Income Taxes*

Income tax provisions of \$111.4 million for the year ended December 31, 2003 represented an effective tax rate of 39%. Income tax provisions of \$86.8 million for the year ended December 31, 2002 represented an effective tax rate of 38%. Our effective tax rate for 2004 is expected to approximate that of 2003.

## SHARE REPURCHASE ACTIVITIES

During the year ended December 31, 2002, we repurchased 6.2 million shares under our board-approved stock repurchase plan. Since the inception of our share repurchase program in 1999, we have purchased 28.1 million shares, or 35% of our outstanding shares at that time, at an average price of \$18.04 per share for an aggregate investment of \$506.2 million. No such repurchases were made during 2003. The Company repurchased 24,178 shares of stocks during 2003 from certain employees and officers under the Company's internal benefit programs offered to employees and officers.



At December 31, 2003, we had \$62 million of remaining capacity to repurchase shares under the current authorization from the board of directors. The Company does not currently plan to repurchase more shares in the foreseeable future, however may later decide to repurchase shares depending on factors such as the price of the shares and the alternative capital deployment options available at the time.

### **CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE**

During January of 2001, we recognized a \$10.2 million charge to earnings, net of taxes, which was recorded as a cumulative effect of a change in accounting principle, in connection with the adoption of Emerging Issues Task Force Issue No. 99-20 "Recognition of Interest Income and Impairment on Certain Investments" ("EITF 99-20"). This charge was primarily attributable to the non-investment grade and residual securities portfolio associated with the discontinued manufactured housing product line. We discontinued the manufactured housing product line with dealers during 1999, but the portfolio investments that were retained from this product line continued to be impacted by declining trends in the industry. These securities had previously been marked-to-market through accumulated other comprehensive income, a separate component of shareholders' equity. This change resulted in a \$2.1 million reduction to total shareholders' equity. Our remaining investment in manufactured housing securities was \$1.8 million at December 31, 2003.

### **FUTURE OUTLOOK**

On average, U.S. mortgage debt outstanding has grown approximately 7% to 8% per year over the last 2 decades and is projected, based on economic and demographic factors, to continue this level of approximate growth. At this rate, mortgage debt outstanding roughly doubles every decade. We believe, based on our confidence in our employees, hybrid thrift/mortgage banking business model, capital strength and ability to gain market share, that we are positioned to grow earnings per share at a compounded growth rate of approximately 15% over the long run, or approximately double the rate of the industry. In fact, our historical track record has exceeded this target over the last eleven years with compounded annual growth of 27% under our current management team.

With that said, the past three years have been extraordinary years for the mortgage industry. Industry mortgage production has achieved historic highs as a result of historically low interest rates, which led to record refinancing of mortgages. The industry is in the midst of a major transition from these historic highs back to more normalized levels. The Mortgage Bankers Association of America in its Mortgage Finance Forecast is projecting that industry production will decline 47% in 2004. Given the significant industry transition, IndyMac expects that its earnings per share next year will lag its long-term growth rate and may even decline slightly as we make this transition.

In the midst of this significant industry transition, forecasting is difficult. While there are many scenarios that could occur, we currently forecast that 2004 earnings per share will range from \$2.90 to \$3.25. Following this transition period for our industry which we expect will be largely completed by the end of 2004, we would expect earnings per share to increase to approximately \$4.00 in 2005, and continued solid EPS growth thereafter given our historical compounded annual EPS growth rate from December 31, 1992 through December 31, 2003 of 28%. This forecast does not include the potential impact of the change in rate lock accounting discussed above in "Mortgage Banking Activities."

This "Future Outlook" section contains certain forward-looking statements. See the section of this Form 10-K entitled "Forward-Looking Statements" for a description of factors which may cause our actual results to differ from those anticipated.



## LIQUIDITY AND CAPITAL RESOURCES

### OVERVIEW

Our principal financing needs are to fund acquisitions of mortgage loans and our investment in mortgage loans, mortgage-backed securities and MSRs. Our primary sources of funds used to meet these financing needs are loan sales and securitizations, advances from the Federal Home Loan Bank, deposits, other borrowings and retained earnings. The sources used vary depending on such factors as rates paid, maturities and the impact on our capital. Additionally, we may occasionally securitize mortgage loans that we intend to hold for investment to lower our costs of borrowing against such assets and reduce the capital requirement associated with such assets. At December 31, 2003, we had operating liquidity of \$909.9 million, which is represented by unpledged liquid assets on hand plus amounts that may be immediately raised through the assets pledged as collateral pursuant to committed lines of credit. We currently believe that our liquidity level is sufficient to satisfy our operating requirements and to meet our obligations and commitments in a timely and cost effective manner.

### PRINCIPAL SOURCES OF CASH

#### *Loan Sales and Securitizations*

Our business model relies heavily upon selling the majority of our mortgage loans shortly after acquisition. The proceeds of these sales are a critical component of the liquidity necessary for our ongoing operations. During the year ended December 31, 2003, we sold 86% of our funded mortgage loans through three channels: (1) GSEs (generating \$14 billion of cash proceeds); (2) private label securitizations (generating \$6 billion of cash proceeds); and (3) whole loan sales (generating \$4 billion of cash proceeds). The remainder we retained in our investment portfolio. If any of our sales channels were disrupted, our liquidity could be negatively impacted. Disruptions in our whole loan sales and mortgage securitization transactions can occur as a result of the performance of our existing securitizations, as well as economic events or other factors beyond our control.

We elected to retain the remaining balance of our mortgage loans, totaling \$4 billion, for our portfolio of mortgage loans held for investment to provide future interest income for the Company. Had we needed to raise more cash for liquidity reasons, these loans could have been sold via one of the above mentioned channels.

#### *Advances from Federal Home Loan Bank*

The Federal Home Loan Bank system functions as a borrowing source for regulated financial depositories and similar institutions that are engaged in residential housing finance. As a member of the FHLB of San Francisco, we are required to own capital stock of the FHLB and are authorized to apply for advances from the FHLB, on a secured basis, in amounts determined by reference to available collateral. SFR mortgage loans, agency and AAA-rated mortgage-backed securities are the principal collateral that may be used to secure these borrowings, although, certain other types of loans and other assets may also be accepted pursuant to FHLB policies and statutory requirements. Currently, the Bank is approved for collateralized advances of up to \$5.6 billion, of which \$4.9 billion were outstanding at December 31, 2003. The FHLB offers several credit programs, each with its own fixed or floating interest rate, and a range of maturities.

#### *Deposits/Retail Bank*

We solicit deposits from the general public and institutions by offering a variety of accounts and rates through our network of 10 branches in Southern California, telebanking, and internet channels. Through our website at [www.indymacbank.com](http://www.indymacbank.com), consumers can access their accounts 24-hours a day, seven days a week. Online banking allows customers to access their accounts, view balances, transfer funds between accounts, view transactions, download account information and pay their bills conveniently from any computer terminal.



Included in deposits at December 31, 2003 and 2002 were non-interest bearing custodial accounts totaling \$528.6 million and \$497.5 million, respectively. These balances consist primarily of payments pending remittance to investors on servicing of loans sold to Fannie Mae and Freddie Mac.

Our deposit products include regular savings accounts, demand deposit accounts, money market accounts, certificates of deposit and individual retirement accounts. The following table sets forth the average balance of, and the average interest rate paid on deposits, by deposit category for the years ended December 31, 2003, 2002 and 2001.

	2003		2002		2001	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in thousands)						
Interest-bearing checking .....	\$ 38,196	0.92%	\$ 34,935	1.25%	\$ 26,109	1.79%
Savings .....	1,185,563	2.08%	521,322	2.55%	267,538	4.03%
Certificates of deposit .....	1,938,462	3.25%	2,109,685	4.34%	1,615,512	5.42%
Total interest-bearing deposits .....	3,162,221	2.78%	2,665,942	3.95%	1,909,159	5.17%
Noninterest-bearing checking ...	40,534	0.00%	31,264	0.00%	18,871	0.00%
Custodial accounts .....	694,710	0.00%	330,095	0.00%	18,723	0.00%
Total deposits .....	<u>\$3,897,465</u>	<u>2.26%</u>	<u>\$3,027,301</u>	<u>3.48%</u>	<u>\$1,946,753</u>	<u>5.07%</u>

Accrued but unpaid interest on deposits included in other liabilities totaled \$166,000 at December 31, 2003, \$124,000 at December 31, 2002, and \$413,000 at December 31, 2001.

#### *Trust Preferred Debentures, Securities and Warrants*

On November 14, 2001, we completed an offering of Warrants and Income Redeemable Equity Securities ("WIRES") to investors. Gross proceeds of the transaction were \$175 million. The securities were offered as units consisting of a trust preferred security, issued by a trust formed by us, and a warrant to purchase IndyMac Bancorp's common stock. The proceeds from the offering are used in ongoing operations and will fund future growth and/or repurchases of IndyMac Bancorp stock under its share repurchase program (see "Share Repurchase Activities" above). In both the months of July and December 2003, we issued an additional \$30 million of trust preferred securities, yielding 6.16% and 6.45%, respectively. The proceeds of these securities will also be used in operations. These securities did not contain any warrants on IndyMac Bancorp common stock.

Upon the adoption of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51*, on July 1, 2003, the trusts have been deconsolidated from the financial statements of the Company. Trust preferred debentures, representing the liabilities due from IndyMac Bancorp to IndyMac Capital Trusts, amounted to \$183.6 million and \$117.1 million at December 31, 2003 and 2002, respectively. The increase in balance is primarily due to the issuance of \$60 million trust preferred during the second half of 2003. These debentures are included in Other Borrowings on the consolidated balance sheets.

#### *Other Borrowings, Excluding Trust Preferred*

Other borrowings, excluding trust preferred, consist of loans and securities sold under committed financing facilities and uncommitted agreements to repurchase, CMO collateral and notes payable. Total other borrowings decreased to \$2,438.5 million at December 31, 2003, from \$2,491.7 million at December 31, 2002. The decrease of \$53.3 million was the result of using funds generated from sales of loans and securities, an increase in FHLB advances and an increase in savings deposits, instead of borrowings to fund mortgage loans originated during the year ended December 31, 2003.

At December 31, 2003, we had \$2.9 billion in committed financing facilities, of which \$1.5 billion was utilized and \$739.3 million was available for use, based on eligible collateral. Decisions by our lenders and



investors to make additional funds available to us in the future will depend upon a number of factors. These include our compliance with the terms of existing credit arrangements, our financial performance, eligible collateral, changes in our credit rating, industry and market trends in our various businesses, the general availability and interest rates applicable to financing and investments, the lenders' and/or investors' own resources and policies concerning loans and investments and the relative attractiveness of alternative investment or lending opportunities.

The table below provides additional information related to our repurchase agreements.

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
Average balance during the year .....	\$2,458,977	\$1,428,685	\$1,912,624
Maximum balance outstanding(1) .....	3,223,671	2,505,230	2,110,411
Balance at December 31, .....	2,438,059	2,401,554	750,070
Interest rate, end of year .....	1.4%	1.7%	2.4%
Weighted average coupon rate during the year .....	2.0%	2.0%	5.0%

- (1) The maximum amount of borrowings outstanding occurred in October 2003, October 2002, and April 2001.

The following table summarizes our sources of financing as of December 31, 2003:

<u>Financial Institution or Instrument</u>	<u>Committed Financing</u>	<u>Outstanding Balances</u>	<u>Type of Financing</u>	<u>Maturity Date</u>
	(Dollars in millions)			
Merrill Lynch .....	\$1,500	\$ 710	Repurchase Agreement	May-05
UBS Warburg .....	250	204	Repurchase Agreement	Apr-04
Morgan Stanley .....	750	392	Repurchase Agreement	Aug-04
Greenwich Capital .....	300	215	Repurchase Agreement	Nov-04
Bank of America .....	100	—	Revolving Bank Line	Feb-05
Total Borrowings .....	2,900	1,521		
Advances from Federal Home Loan Bank .....	5,602	4,935		
Total Committed Financing .....	<u>\$8,502</u>	6,456		
Deposits .....		4,351		
Repurchase agreements under uncommitted lines of credit .....		918	Repurchase Agreement	N/A
Trust Preferred Securities ...		184	Trust Preferred Securities	Nov-31, Jul-33, Dec-33
Total Financing .....		<u>\$11,909</u>		

Our credit facilities do not have default triggers tied to our credit rating. While a change in rating would thus not directly affect our current borrowing capacity in a material manner, it might affect our lenders' decisions to renew credit facilities with us or it may change market perceptions and impact our trading and loan sales activities. As of December 31, 2003, the corporate ratings assigned to both IndyMac Bancorp and IndyMac Bank were as follows:

	<u>Standard &amp; Poor's</u>	<u>Fitch, IBCA, Duff &amp; Phelps</u>
Outlook .....	Stable	Stable
Long term issuer credit .....	BB+	N/A
Short term issuer credit .....	B	F2
	"Adequate capacity to meet financial obligations"	"Low probability of default"



## PRINCIPAL USES OF CASH

In addition to the financing sources discussed above, cash uses are funded by net cash flows from operations, sales of mortgage-backed securities and principal and interest payments on loans and securities. The amounts of net acquisitions of loans held for sale and trading securities included as components of net cash provided by (used in) operating activities totaled \$361 million during 2003 and \$(951) million during 2002. Excluding the purchase and sale activity for loans held for sale and trading securities, the net cash provided by the Company's operating activities totaled \$87 million and \$38 million for the years ended December 31, 2003 and 2002, respectively. During the third quarter 2003, the Company started to purchase swaptions, and more caps and floors to hedge certain liabilities and servicing-related assets. The net (increase) decrease in premiums paid for these derivative instruments totaled \$(93.0) million and \$23.9 million for the years ended December 31, 2003 and 2002, respectively. The net cash provided by the Company's operating activities before the activities for trading securities, loans held for sale and purchase of derivative instruments amounted to \$180 million and \$14.3 million for the years ended December 31, 2003 and 2002, respectively.

## ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss was (\$26.5) million at December 31, 2003, compared to (\$17.7) million at December 31, 2002. This change was a result of: (1) the decline in fair value of certain interest rate swaps and swaptions designated as cash flow hedges of floating rate borrowings and does not include related increases in the fair value of loans held for investment that are funded by borrowings that are hedged by these interest rate swaps and swaptions and (2) the decline in the value of securities classified as available for sale. Accumulated Other Comprehensive Loss is not a component of the determination of regulatory capital.

## REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to regulatory capital regulations administered by the federal banking agencies. In addition, as a condition to its approval of our acquisition of SGV Bancorp, Inc. in July 2000, the OTS required that the Bank hold Tier 1 (core) capital of at least 8% of adjusted total assets for three years following the consummation of the transaction and maintain a total risk-based capital position of at least 10% of total risk-weighted assets. This particular condition expired on July 1, 2003 and the Bank has committed to the OTS to maintain total risk-based capital and Tier 1 risk-based capital (core capital minus the deduction for low-level recourse and residual interests) equal to at least 10% and 6%, respectively, of total risk-weighted assets. As of December 31, 2003, the Bank met all of the requirements of a "well-capitalized" institution under the general regulatory capital regulations.

During 2001, the OTS issued guidance for subprime lending programs, which requires a lender to quantify the additional risks in its subprime lending activities and determine the appropriate amounts of allowances for loan losses and capital it needs to offset those risks. During the fourth quarter of 2003, the Company revised its approach to conform to this guidance and this revised approach was accepted by the OTS. Whereas, in the past, subprime loans were determined based on increasing risk levels using secondary marketing and rating agency securitization models, the revised approach now generally classifies as subprime all loans in a first lien position with a FICO score less than 620 and all loans in a second lien position with a FICO score less than 660. As of December 31, 2003, loans meeting this revised definition were supported by capital equal to two times that of similar prime assets. We report our subprime loan calculation in an addendum to the Thrift Financial Report that we file with the OTS. As of December 31, 2003, subprime loans held for sale totaled \$364.3 million as calculated for regulatory reporting purposes.



The following table presents the Bank's actual and required capital ratios and the minimum required capital ratios to be categorized as "well-capitalized" at December 31, 2003. The impact of the additional risk weighting criteria related to subprime loans had the effect of reducing IndyMac's total risk-based capital by 66 basis points as noted in the table below.

	<u>As Reported Pre-Subprime Risk-Weighting</u>	<u>Adjusted for Additional Subprime Risk-Weighting</u>	<u>Well-Capitalized Minimum</u>
<b>Capital Ratios:</b>			
Tangible .....	7.56%	7.56%	2.00%
Tier 1 core .....	7.56%	7.56%	5.00%
Tier 1 risk-based .....	12.35%	11.73%	6.00%
Total risk-based .....	12.95%	12.29%	10.00%

We believe that, under current regulations, the Bank will continue to meet its "well-capitalized" minimum capital requirements in the foreseeable future. The Bank's regulatory capital compliance could be impacted, however, by a number of factors, such as changes to applicable regulations, adverse action by our regulators, changes in the our mix of assets, interest rate fluctuations, loan loss provisions and credit losses, or significant changes in the economy in areas where we have most of our loans. Any of these factors could cause our actual future results to vary from anticipated future results and consequently could have an adverse impact on the ability of the Bank to meet its future minimum capital requirements. See "Item 1. Business — Regulation and Supervision" for additional discussion of capital requirements.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

We are party to various transactions that have off-balance sheet components. In connection with loan sales that are securitization transactions, there are \$21.9 billion in loans owned by off-balance sheet trusts as of December 31, 2003. The trusts have issued bonds secured by these loans. We have no obligation to provide funding support to either the third party investors or the off-balance sheet trusts. The third party investors or the trusts generally have no recourse to our assets or us and have no ability to require us to repurchase their loans other than for non-credit-related recourse that can arise under standard representations and warranties.

We often retain certain interests, which may include subordinated classes of securities, MSRs, AAA-rated and agency interest-only strips and residual securities in the securitization trust. The performance of the loans in the trusts will impact our ability to realize the current estimated fair value of these assets that are included on our balance sheet.

#### **AGGREGATE CONTRACTUAL OBLIGATIONS**

The following table summarizes our material contractual obligations as of December 31, 2003. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts, hedge basis adjustments, or other similar carrying value adjustments.



Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

		Payment Due				
	Note	January 1, 2004 through December 31, 2004	January 1, 2005 through December 31, 2006	January 1, 2007 through December 31, 2008	After December 31, 2008	Total
(In thousands)						
Deposits without a stated maturity .....	9	\$1,599,885	\$ —	\$ —	\$ —	\$ 1,599,885
Custodial Accounts and Certificates of Deposits .....	9	2,171,316	559,504	20,068	—	2,750,888
FHLB Advances .....	10	3,679,911	985,000	270,000	—	4,934,911
Repurchase Agreements	11	2,438,245	—	—	—	2,438,245
CMO's .....	11	—	—	—	206	206
Trust Preferred .....	11	—	—	—	183,643	183,643
Accrued Interest Payable .....	—	19,614	—	—	—	19,614
Deferred Compensation	—	—	—	—	20,737	20,737
Operating Leases .....	20	11,291	20,286	15,679	7,269	54,525
Purchase Obligations ..	—	7,497	12,163	1,720	—	21,380
Total .....		\$9,927,759	\$1,576,953	\$307,467	\$211,855	\$12,024,034

A schedule of significant commitments at December 31, 2003 follows:

	Payment Due (Dollars in thousands)
<b>Investment portfolio commitments to:</b>	
Purchase loans pursuant to an exercise clean up calls .....	\$203,529
<b>Undisbursed loan commitments:</b>	
Builder construction .....	474,028
Consumer construction .....	897,554
HELOCs .....	477,719
<b>Letters of credit .....</b>	<b>16,507</b>

Additionally, in connection with standard representations and warranties on loan sales and securitizations, we are occasionally required to repurchase loans or make certain payments to settle breaches of these representations and warranties. From inception of our active mortgage banking operations on January 1, 1993 through December 31, 2003, we have sold \$98.0 billion in loans, and repurchased \$94.9 million loans, or 0.10% of total loans sold. To provide for probable future losses related to loans sold, we have established a reserve based on estimated losses on actual pending claims and repurchase requests, historical experience, loan sales volume and loan sale distribution channels, which is included in other liabilities in the consolidated balance sheets. The balance in this reserve totaled \$34.0 million at December 31, 2003. See the caption "Secondary Market Reserve" above for further information.

## RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

### INTEREST RATE RISK

#### Asset/Liability Management

Due to the characteristics of our financial assets and liabilities and the nature of our business activities, our liquidity, financial position and results of operations may be materially affected by changes in interest rates in various ways. The objective of our hedging strategies is to mitigate the impact of interest rate changes, on an economic and accounting basis, on the NPV of our balance sheet. We invest in MSRs and AAA-rated and agency interest-only securities to generate core interest income. The value of these instruments and the



income they provide tends to be counter-cyclical to the changes in production volumes and gain on sale of loans that result from changes in interest rates. We also purchase derivative instruments to hedge our mortgage pipeline, MSRs and AAA-rated and agency interest-only securities to guard against losses resulting from increased prepayments in declining interest rate environments. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of our execution, the accuracy of our asset valuation assumptions and other sources of interest rate risk discussed further below.

### ***Mortgage Loans Held for Sale***

We hedge the risks associated with our mortgage pipeline. The mortgage pipeline consists of our commitments to purchase mortgage loans ("rate locks") and funded mortgage loans that will be sold in the secondary market. The risk associated with the mortgage pipeline is that interest rates will fluctuate between the time we commit to purchase a loan at a pre-determined price, or the customer locks in the interest rate on a loan, and the time we sell or commit to sell the mortgage loan. These commitments are recorded net of the anticipated loan funding probability, or fallout factor. Generally speaking, if interest rates increase, the value of an unhedged mortgage pipeline decreases, and gain on sale margins are adversely impacted. Typically, we hedge the risk of overall changes in fair value of loans held for sale by either entering into a forward loan sale agreement or selling forward Fannie Mae or Freddie Mac MBS to hedge loan commitments and to create fair value hedges against the funded loan portfolios.

During the fourth quarter of 2003, the SEC announced its intention to issue accounting guidance requiring that rate lock commitments be treated as written options. This guidance, if issued, would change the timing of the Company's recognition of gain on sale revenue. Had the guidance been applied during the fourth quarter of 2003, the revenue related to the fair value of rate locks granted during the quarter would not have been recognized until the related loans were sold. This amount is estimated to be roughly 50% of total quarterly gain on sale revenue. Since the time between rate lock and loan sale is typically less than 90 days, this revenue would likely be recognized in the following quarter.

The SEC guidance is currently expected to be implemented as of April 1, 2004. This implementation is expected to have a one-time negative impact on gain on sale revenues in the quarter implemented, but effects only the timing of revenue recognition, generally by one quarter or less, not the ultimate amount of revenue recognized over time.

See further discussion above under the caption "Mortgage Banking Activities" in "Item 1. Business."

### ***AAA-Rated and Agency Interest-Only Securities and Mortgage Servicing Rights***

The primary risk associated with AAA-rated and agency interest-only securities and MSRs is that they will lose a substantial portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates. Conversely, these assets generally increase in value in a rising rate environment. As of December 31, 2003, we held \$146.2 million of AAA-rated and agency interest-only securities and \$443.7 million of MSRs.

To hedge changes in the value of our AAA-rated and agency interest-only securities portfolio and MSRs, we generally use a combination of several financial instruments, including but not limited to, buying and/or selling mortgage-backed or U.S. Treasury securities, futures, floors, swaps, or options. In managing the composition of our hedge position, we consider a number of factors including, but not limited to, the characteristics of the mortgage loans supporting the hedged assets, market conditions, the cost of alternate hedges, and internal and regulatory risk tolerances for interest rate sensitivity. We use hedging instruments to reduce our exposure to interest rate risk, rather than to speculate on the direction of market interest rates. These hedging strategies are highly susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve among other factors as described below. While our hedging strategies have been generally effective, there can be no assurance that these strategies will succeed under any particular interest rate scenario.



### *Other Securities*

Certain financial instruments that we invest in tend to decrease in value as interest rates increase and tend to increase in value as interest rates decline. These include fixed rate investment grade and non-investment grade mortgage-backed and asset-backed securities, principal-only securities and U.S. Treasury bonds. The principal-only securities and U.S. Treasury bonds generally act as hedges to our servicing-related assets. To a lesser extent, mortgage securities supported by adjustable rate mortgage loans may change in value as interest rates change, if the timing or absolute level of interest rate adjustments on the underlying loans do not correspond to applicable changes in market interest rates. While such mortgage-backed securities are highly rated instruments from a credit standpoint, these securities are considered complex mortgage securities because actual future cash flows may vary from expected cash flows primarily due to borrower prepayment behavior.

### *Sources of Interest Rate Hedging Risk*

We seek to mitigate our interest rate risks through the various hedging strategies described above. However, there can be no assurance that these strategies (including assumptions concerning the correlation thought to exist between different types of instruments) or their implementation will be successful in any particular interest rate environment, as market volatility cannot be predicted. The following are the primary sources of risk that we must manage in our hedging strategies.

*Basis Risk.* In connection with our interest rate risk management, basis risk is most prevalent in our hedging activities, in that the change in value of hedges may not equal or completely offset the change in value of the financial asset or liability being hedged. While we choose hedges we believe will correlate effectively with the hedged asset or liability under a variety of market conditions, "perfect" hedges are not available for the assets or liabilities we attempt to hedge. For example, we hedge our pipeline of non-conforming mortgage loans with forward commitments to sell Fannie Mae or Freddie Mac securities of comparable maturities and weighted average interest rates. However, our non-conforming mortgage loans typically trade at a discount (or require an incremental yield spread) relative to conforming GSE collateral, due to the higher perceived ratings of Fannie Mae or Freddie Mac obligations. In certain interest rate environments, the relative price movement of the non-conforming mortgage loans and the agency securities may differ, as the market may require a larger or smaller discount for the non-conforming loans. Consequently, the change in value of the non-conforming mortgage loan (the hedged asset), which is a function of the size of the discount, is typically not perfectly correlated with the change in value of the Fannie Mae or Freddie Mac securities sold (the hedge) resulting in basis risk.

To hedge our MSRs and AAA-rated and agency interest-only securities, which are primarily backed by non-conforming mortgage loan collateral, we use a combination of LIBOR/swap-based options, treasury and agency futures and private-label mortgage-backed securities. As there are no hedge instruments which would be perfectly correlated with these hedged assets, we use the above instruments because we believe they generally correlate well with the hedged assets. Further, we make assumptions in our financial models as to how LIBOR/swap, treasury, agency and private-label mortgage rates will change in relation to one another. From time to time, in certain interest rate environments, the relative movement of these different interest rates and the corresponding change in value of the applicable hedge instruments do not change as we anticipate, resulting in an imperfect correlation between the values of the hedges and the hedged assets.

*Options Risk.* An option provides the holder the right, but not the obligation, to buy, sell, or in some manner alter the cash flows of an instrument or financial contract. Options may be stand-alone instruments such as exchange-traded options and over-the-counter contracts, or they may be embedded within standard instruments. Instruments with embedded options include bonds and notes with call or put provisions, loans that give borrowers the right to prepay balances, and adjustable rate loans with interest rate caps or floors that limit the amount by which the rate may adjust. Loans that give borrowers the right to prepay balances present the most significant option risk that we must manage.

*Repricing Risk.* Repricing risks arise from the timing difference in the maturity and/or repricing of assets, liabilities and off-balance sheet positions. While such repricing mismatches are fundamental to our



business, they can expose us to fluctuations in income and economic value as interest rates vary. For example, if a long-term, fixed-rate loan is funded with a short-term deposit, future net interest income would be susceptible to a decline as interest rates increase. This decline would occur because the interest income from the loan is fixed, while the interest paid on the deposit will be reset each time the deposit matures. We monitor and manage repricing risk using NPV analyses conforming to regulatory requirements within certain risk tolerances. This internal risk management process, however, does not eliminate repricing risk.

*Yield Curve Risk.* The value of certain loans, securities and hedges we hold is based on a number of factors, including the shape or slope of the appropriate yield curve, as the market values financial assets and hedge instruments based on expectations for interest rates in the future. Yield curves typically reflect the market's expectations for future interest rates. In valuing our assets and related hedge instruments, in formulating our hedging strategies and in evaluating the interest rate sensitivity for risk management purposes, our models use market yield curves, which are constantly changing. If the shape or slope of the market yield curves change unexpectedly, the market values of our assets and related hedges may be negatively impacted and/or changes in the value of the hedges may not be effectively correlated with the changes in the value of the hedged assets or liabilities.

## VALUATION RISK

### *General*

We hold assets in our investment portfolio that we create in connection with the sale or securitization of mortgage loans. These assets include AAA-rated and agency interest-only securities, MSRs, non-investment grade securities and residuals. In addition, from time to time, we may acquire these types of securities from third party issuers. These assets represented 5% of total assets and 69% of total equity at December 31, 2003. We value them with complex financial models that incorporate significant assumptions and judgments, which could vary significantly as market conditions change.

### *Modeling Risk*

We use third party vendor financial models to value each of the asset types referred to above. These models are complex and use asset specific collateral data and market inputs for interest rates. While this level of complexity of our valuation models can result in more precise valuations, increased hedging effectiveness and improved risk management practices, the increased complexity must be managed to ensure, among other things, that the models are properly calibrated, the assumptions are reasonable, the mathematical relationships used in the model are predictive and remain so over time, and the data and structure of the assets and hedges being modeled are properly input.

The modeling requirements of MSRs and residual securities are significantly more complex than those of AAA-rated and agency interest-only securities. This is because of the high number of variables that drive cash flows associated with MSRs (including, among others, escrow balances, reinvestment rates, defaults and the cost to service mortgage loans) and the complex cash flow structures, which may differ on each securitization, that determine the value of residual securities. To mitigate this risk, we maintain significant internal oversight of the valuation process. In addition, we have our models or valuations independently assessed by third party specialists. We will continue to obtain such independent assessments on a quarterly basis to address this risk.

### *Assumption Risk*

Even if the general accuracy of the valuation model is validated, valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships which drive the results of the model. Such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more complex.

In volatile markets like we experienced in 2003, there is increased risk that our actual results may be significantly different than those results derived from using our assumptions. As the time period over which



the uncertainty will be resolved increases, those estimates will likely change over a greater number of periods, potentially adding further volatility to the model results. For example, assumptions regarding prepayment speeds and loan loss levels are used in estimating values of certain assets. If loans prepay faster than estimated, or loan loss levels are higher than anticipated, we may be required to write down the value of such assets. While we build in discounting factors to our assumptions and implement hedging strategies to mitigate the change in interest rates which drive the change in prepayment rates, asset write downs and write ups typically occur over the lives of the assets. This occurs because actual prepayments and losses are driven by borrower behavior, which cannot always be precisely predicted.

The above assumptions are just a few examples of assumptions incorporated into our valuations. Whenever active markets exist to provide relevant information, we use third party valuations and related assumptions determined from trading activity or market analysis. Our valuations are also subject to extensive review procedures, including a management-level ALCO, a Board of Directors-level ALCO and external auditors. We also validate the overall valuation through third party reviews as discussed above. Further discussion of how we form our assumptions is included under "Critical Accounting Policies and Judgments" below.

## **CREDIT RISK**

### *General*

We have assumed a degree of credit risk in connection with our investments in certain mortgage securities and loans held for investment and sale, as well as in connection with our construction lending operations and our mortgage banking activities. We have established risk management and credit committees to manage our exposure to credit losses in each of these business operations. We have also established a central credit risk management committee to monitor the adequacy of loan loss reserves for our lending products and the valuation of credit sensitive securities. The central credit risk management committee implements changes that seek to balance our credit risk with our production, pricing and profitability goals.

### *Mortgage Loans*

We have two principal underwriting methods designed to be responsive to the needs of our mortgage loan customers: traditional underwriting and e-MITS underwriting. In 2003, we generated 72% of our mortgage loans through the e-MITS underwriting process. Through the traditional underwriting method, customers submit mortgage loans that are underwritten by us in accordance with our guidelines prior to purchase. As discussed above under the caption "Mortgage Banking Activities" in "Item 1. Business," e-MITS is our automated, Internet-based underwriting and risk-based pricing system. e-MITS enables us to more accurately estimate expected credit loss, interest rate risk and prepayment risk, so that we can acquire loans at prices that more accurately reflect these risks. Risk-based pricing is based on a number of borrower and loan characteristics, including, among other loan variables, credit score, occupancy, documentation type, purpose, loan-to-value ratio and prepayment assumptions based on an analysis of interest rates.

Because our risk-based pricing models, including the risk-based pricing models utilized in e-MITS, are based primarily on standard industry loan loss data supplemented by our historical loan loss data and proprietary logic developed by us, and because the models cannot predict the effect of financial market and other economic performance factors, there are no assurances that our risk-based pricing models are a complete and accurate reflection of the risks associated with our loan products.

We are also subject to fraud and compliance risk in connection with the purchase or origination of mortgage loans. Fraud risk includes the risk of intentional misstatement of information in property appraisals or other underwriting documentation. This risk is typically higher in the acquisition of a loan from a third party seller. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations, and to our standards.

We mitigate fraud risk through a number of controls, including credit checks and reference checks to validate loan quality and annual recertification of our third-party sellers. We address compliance risk with a



quality control program through which we monitor the completeness of loan files throughout several stages of the loan process and identify corrective actions to be taken either by our third-party sellers or in-house origination staff. Lastly, we perform ongoing quality control reviews to ensure that purchased loans meet our quality standards. We also have the ability to require our broker or seller counterparties to repurchase loans for representation and warranty breaches. However, there is no guarantee the broker or seller counterparty will have the financial capability to repurchase the loans.

### *Loan Sales and Qualifying Special Purpose Entities*

Loan sales and securitization transactions comprise a significant source of our overall funding. Our sales channels include whole loan sales, sales to GSEs and private-label securitizations. Private-label securitizations involve transfers of loans to off-balance sheet qualifying special purpose entities. In some transactions, we have retained a relatively small interest in securities issued by the qualifying special purpose entity. Pursuant to SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the assets and liabilities of the qualifying special purpose entities are not consolidated with our financial statements as these entities meet the legal isolation criteria in SFAS 140.

We retain limited credit exposure from the sale of mortgage loans. We make standard representations and warranties to the transferee in connection with all such dispositions. These representations and warranties do not assure against credit risk associated with the transferred loans, but if individual mortgage loans are found not to have fully complied with the associated representations and warranties, we may be required to repurchase the loans from the transferee or we may make payments to settle such breaches of these representations and warranties. We have established a reserve for losses that arise in connection with representations and warranties for loans sold. This secondary market reserve is included on the consolidated balance sheets in other liabilities.

We occasionally retain non-investment grade securities and residuals that are created in a mortgage loan securitization. Residuals represent the first loss position and are not typically rated by a nationally recognized rating agency. Non-investment grade securities (rated below BBB) may or may not represent the second loss position, depending on the rating, but are typically subject to a disproportionate amount of the credit risk. See further discussion below under "Securities Portfolio."

See "Note 13 — Transfers and Servicing of Financial Assets" in the accompanying notes to the consolidated financial statements for further disclosure of credit exposure associated with securitizations.

### *Securities Portfolio*

We have assumed a certain degree of credit risk in connection with our investments in investment and non-investment grade mortgage-backed securities and residual securities. These securities may be purchased from third party issuers or retained from our own securitization transactions. In general, non-investment grade securities bear losses prior to the more senior investment grade securities. These securities therefore bear a disproportionate amount of the credit risk with respect to the underlying collateral. With regard to retained non-investment grade and residual securities, a fair value is calculated and assigned to these securities and (a) this value is reflected in the gain or (loss) on sale realized from the disposition of the mortgage loans and (b) the securities are initially reflected at this value on our balance sheet and subsequently adjusted to reflect the changes in fair value. The ultimate value of the security may be more or less than the initial calculated and assigned value depending upon the credit performance, among other assumptions, of the mortgage loans collateralizing the securities. The fair value of the security may change from time to time based upon actual default and loss experience of the collateral pool, actual and projected prepayment rates, economic trends and other variables. Our non-investment grade securities and residual portfolio of \$70.2 million represented less than 1% of total assets and 6% of shareholders' equity at December 31, 2003.

Non-investment grade securities represent leveraged credit risk as they absorb a disproportionate share of credit risk as compared to investment grade securities. These securities are recorded on our books net of discount that is based upon, among other things, the estimated credit losses, expected prepayments, as estimated by internal loss models and/or perceived by the market, and the coupons, associated with these



securities. Our non-investment grade securities were recorded at a discount of \$13.6 million to the securities' face value and represented 54% of the face value of these securities at December 31, 2003. The adequacy of this discount is dependent upon how accurate our estimate is of both the amount and timing of the cash flows paid to the non-investment grade securities, which is primarily based upon our estimate of the amount and timing of credit losses and prepayments on the underlying loan collateral.

Residual securities possess a greater degree of risk because they are relatively illiquid, represent the first loss position and require a higher reliance on financial models in determining their fair value. At December 31, 2003, our investment in residual securities totaled \$58.3 million, which represented less than 1% of total assets and 5% of total shareholders' equity. Realization of this fair value is dependent upon the discount rate used and the accuracy of our estimate of both the amount and timing of the cash flows paid to the residual securities, which are based primarily on our estimate of the amount and timing of credit losses on the underlying loan collateral and to a lesser extent prepayment rates on the underlying loan collateral.

### ***Counterparty Risk***

In connection with our trading and hedging activities, we do business only with counterparties that we believe are established and sufficiently capitalized. In addition, with respect to hedging activities on the pipeline of mortgage loans held for sale, we enter into "master netting" agreements with an independent clearinghouse known as MBSCC. This entity collects and pays daily margin deposits to reduce the risk associated with counterparty credit quality. We do not engage in any foreign currency trading. All interest rate hedge contracts are with entities (including their subsidiaries) that are approved by a committee of our Board of Directors and that generally must have a long term credit rating of "A" or better (by one or more nationally recognized credit rating agencies) at the time the relevant contract is consummated. Accordingly, we do not believe that we are exposed to more than a nominal amount of counterparty risk associated with our trading and hedging activities.

### ***Builder Construction Loan Risk***

The primary credit risks associated with builder construction lending are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk, and environmental and other hazard risks. Market risks are risks associated with the sale of the completed residential units. They include affordability risk, which is the risk of affordability of financing by borrowers in a rising interest rate environment, product design risk, and risks posed by competing projects.

We attempt to mitigate some of these risks through the management and credit committee review process and utilization of independent experts in the areas of environmental reviews and project market appraisals; however, there can be no assurance that this review process will fully mitigate the foregoing risks. In our experience, absorption rates of new single-family homes have been good in markets served by us. However, it is unclear whether the economic cycle in certain geographic markets has peaked, which may have an impact on new loans generation or timely payoff of existing loans. We employ geographic concentration limits and borrower concentration limits for builder construction lending, which are intended to mitigate some of the effects of a slowing economic cycle in some areas. Also, the majority of our builder construction lending commitments have personal or corporate guarantees.

## **LIQUIDITY RISK**

### ***General***

Our principal financing needs are to fund our acquisition of mortgage loans and our investment in mortgage loans and mortgage-backed securities. Our primary sources of funds to meet these financing needs include loan sales and securitizations, deposits, advances from the FHLB, committed borrowings and capital. Our ability to attract and maintain deposits and control our cost of funds has been, and will continue to be, significantly affected by market conditions.



Our ability to maintain our borrowing facilities is subject to the renewal of those facilities. Decisions by our lenders and investors to make additional funds available to us in the future will depend upon a number of factors. These include our compliance with the terms of existing credit arrangements, our financial performance and changes in our credit rating, industry and market trends in our various businesses, the general availability of, and rates applicable to, financing and investments, these lenders' and/or investors' own resources and policies concerning loans and investments, and the relative attractiveness of alternative investment or lending opportunities.

We are in compliance with all debt covenants and other terms of our credit arrangements. Such arrangements include traditional terms and restrictions. For example, each of our collateralized borrowing facilities permits the lender or lenders there under to require us to repay amounts outstanding and/or pledge additional assets in the event that the value of the pledged collateral declines due to changes in market interest rates. We utilize operating liquidity to cover potential changes in value of pledged assets. While there are no guarantees as to the market conditions that may affect our performance, based on current market conditions, we do not expect to fall out of compliance with the terms of our credit arrangements.

### *Loan Sales and Securitizations*

Our business model relies heavily upon the ability to sell the majority of the mortgage loans that we acquire within a short period after origination. The proceeds of these sales are a critical component of the liquidity necessary for our ongoing operations.

The key channels through which we sell mortgage loans are bulk sales of loan pools to GSEs that then securitize the loan pools in their own names, sales on a whole loan basis and the private securitization of loan pools, whereby the loans are sold to securitization trusts. In 2003, sales to GSEs were 60% of our total loan sales, whole loan sales were 16%, and private securitizations were 24%, respectively. We have ready access to all three of these distribution channels at this time; however, a disruption in this access could negatively impact our liquidity position and our ability to execute on our business plan. The secondary mortgage market is generally a very liquid market with continuing demand for mortgage-backed security issuances. If a temporary disruption to this market did occur, our depository structure provides us with the limited ability to hold mortgage loans on our balance sheet, somewhat mitigating this risk. In addition, we have substantial liquidity resources — \$909.9 million as of December 31, 2003 — and the ability to raise additional funding. However at our current production levels, if the disruption were to last for more than a month or two, we would have to radically restructure our business to slow volume and would have difficulty sustaining our earnings performance as a significant portion of our earnings depend on our ability to sell our mortgage production.

In connection with our private-label securitizations, we do not provide contractual legal recourse beyond standard representations and warranties to third party investors that purchase securities issued by the QSPEs beyond the credit enhancement inherent in any retained subordinated interest (i.e., retained non-investment grade and residual securities). A deterioration in the performance of our private-label securities could adversely impact the availability and pricing of future transactions.

### **CYCLICAL INDUSTRY**

The mortgage industry is a cyclical business that generally performs better in a low interest rate environment such as the current one. The environment of historically low interest rates over the past three years has been very favorable for mortgage bankers such as us. As the industry transitions to a higher interest rate environment, the demand for mortgage loans is expected to decrease, which would cause a lower level of growth, or even a reduction, in earnings per share, in the short run. In addition, other external factors, including tax laws, the strength of various segments of the economy and demographics of our lending markets, could influence the level of demand for mortgage loans. Gain on sale of loans is a large component of our revenue and would be adversely impacted by a significant decrease in our mortgage loan volume. We have grown our investment in mortgage loans during 2003 to provide a level of core net interest income in an effort to mitigate the cyclicity.



## COMPETITION

We face significant competition in acquiring and selling loans. In our mortgage banking operations, we compete with other mortgage bankers, GSEs, established third party lending programs, investment banking firms, banks, savings and loan associations, and other lenders and entities purchasing mortgage assets. With regard to mortgage-backed securities issued through our mortgage banking operations, we face competition from other investment opportunities available to prospective investors. We estimate our market share of the U.S. mortgage market to be approximately 1%. A number of our competitors have significantly larger market share and financial resources. We seek to compete with financial institutions and mortgage companies through an emphasis on quality of service, diversified products and maximum use of technology.

The GSEs have made and we believe will continue to make significant technological and economic advances to broaden their customer bases. When the GSEs contract or expand, there are both positive and negative impacts on our mortgage banking lending operations. As GSEs expand, additional liquidity is brought to the market, and loan products can be resold more quickly. Conversely, expanding GSEs increase competition for loans, which may reduce profit margins on loan sales. We seek to address these competitive pressures by making a strong effort to maximize our use of technology, by diversifying into other residential mortgage products that are less affected by GSEs, and by operating in a more cost-effective manner than our competitors.

## LAWS AND REGULATIONS

The banking industry in general is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. The OTS and the FDIC are primarily responsible for the federal regulation and supervision of the Bank and its affiliated entities. In addition to their regulatory powers, these two agencies also have significant enforcement authority that they can use to address unsafe and unsound banking practices, violations of laws, and capital and operational deficiencies. Enforcement powers can be exercised in a number of ways, through either formal or informal actions. Informal enforcement actions customarily remain confidential between the regulator and the financial institution, while more formal enforcement actions are customarily publicly disclosed. Further, the Bank's operations are subject to regulation at the state level, including a variety of consumer protection provisions. Banking institutions also are affected by the various monetary and fiscal policies of the U.S. government, including those of the Federal Reserve Board, and these policies can influence financial regulatory actions. Accordingly, the actions of those governmental authorities responsible for regulatory, fiscal and monetary affairs can have a significant impact on the activities of financial services firms such as ours. See further information in "Item 1. Business — Regulation and Supervision."

The Company's financial condition and results of operations are reported in accordance with US GAAP. While not impacting economic results, future changes in accounting principles issued by the Financial Accounting Standards Board could impact our operational results as reported under US GAAP.

Additionally, political conditions could impact the Company's earnings. Acts or threats of war or terrorism, as well as actions taken by the U.S. or other governments in response to such acts or threats, could impact business and economic conditions in which the Company operates.

## GEOGRAPHIC CONCENTRATION

A majority of our loans are geographically concentrated in certain states, including California, New York, Florida and New Jersey with 61% of our loan receivable balance at December 31, 2003 being in California. Any adverse economic conditions in these markets could cause the number of loans acquired to decrease, likely resulting in a corresponding decline in revenues. Also, we could be adversely affected by business disruptions triggered by natural disasters or acts of war or terrorism in these geographic areas.



## **BUSINESS EXECUTION AND TECHNOLOGY RISK**

Our business performance is highly dependent on solidly executing our mortgage banking business model. We must properly price and continue to expand our products, customer base and market share. In addition, the execution of our hedging activities is critical as we have significant exposure to changes in interest rates.

We are highly dependent on the use of technology in all areas of our business and we must take advantage of advances in technology to stay competitive. There are no guarantees as to our degree of success in anticipating and taking advantage of technological advances or that we will be more successful in the use of technology than our competitors.

## **CRITICAL ACCOUNTING POLICIES AND JUDGMENTS**

Several of the critical accounting policies that are very important to the portrayal of our financial condition and results of operations require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the impact of changing market conditions and/or consumer behavior. We believe our most critical accounting policies relate to (1) assets that are highly dependent on internal valuation models and assumptions rather than market quotations, including, AAA-rated and agency interest-only securities, MSRs and non-investment grade securities and residuals, (2) derivatives and other hedging instruments, (3) our allowance for loan losses ("ALL") and (4) our secondary market reserve.

With the exception of the ALL, these items are generally created in connection with our loan sale and securitization process. The allocated cost of the retained assets at the time of the sale is recorded as a component of the net gain on sale of loans. We recognized a total of \$387 million in gain on sale of loans during the year ended December 31, 2003. A component of this gain was \$386 million of fair value of such retained assets. Such retained assets were comprised primarily of MSRs (75%) and, to a much lesser degree, AAA-rated and agency interest-only securities and investment grade securities and residual securities.

There is a risk that at times we might not satisfy the requirements for fair value hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, for a portion of our loans held for sale because we do not meet the required complex hedge correlation tests. This could cause temporary fluctuations in our reported income but not in the ultimate economic results. The fluctuation in our reported income if hedge accounting is not achieved would be over a very short period as we sold our mortgage loans on average in 50 days during 2003 and the economic effect of both the hedges and loans would be recorded once the sale was completed. In addition, any imprecision in valuation of these items would be adjusted and recorded in a short period through our gain on sale margin once the sale of the loans was completed.

Fair values for these assets are determined by using available market information, historical performance of the assets underlying collateral and internal valuation models as appropriate. The reasonableness of fair values will vary depending upon the availability of third party market information, which is a function of the market liquidity of the asset being valued. In connection with our mortgage banking and investment portfolio operations, we invest in assets created from the loan sale and securitization process, for which markets are relatively limited and illiquid. As a result, the valuation of these assets is subject to our assumptions about future events rather than market quotations. These assets include AAA-rated and agency interest-only securities, MSRs, non-investment grade securities and residuals. As the number of variables and assumptions used to estimate fair value increases and as the time period increases over which the estimates are made, such estimates will likely change in a greater number of periods, potentially adding volatility to our valuations and financial results. For further information regarding the sensitivity of the fair value of these assets to changes in the underlying assumptions, refer to "Note 13 — Transfers and Servicing of Financial Assets" in the accompanying consolidated financial statements of the Company.



## AAA-RATED AND AGENCY INTEREST-ONLY SECURITIES

AAA-rated interest-only securities are created upon the sale of loans through private-label securitizations or, to a much lesser degree, purchased from third party issuers. Agency interest-only strips are created through the bifurcation of the servicing fee we retain to service loans sold to one of the GSE. Under the agreement with the GSE, the contractual servicing fee is separated into a base servicing fee of 25 basis points (the base servicing fee) and an excess yield strips for amounts above the base servicing fee. The cash flows from the excess yield strips are not dependent upon the continued servicing of the underlying loans by us. The asset value of AAA-rated and agency interest-only securities represents the present value of the estimated future cash flows to be received from the excess spread. Future cash flows are estimated by taking the coupon rate of the loans collateralizing the transaction less the interest rate (coupon) paid to the investors less contractually specified servicing and trustee fees, after giving effect to estimated prepayments of the underlying loans. The AAA rating of the interest-only securities reflects the fact that they are exposed to very low credit risk, but does not reflect the fact that their interest rate risk can be significant. The agency interest only securities are not rated but management believes that these assets would be rated AAA if rated due to the nature of the collateral.

We classify our AAA-rated and agency interest-only securities as trading and they are therefore carried at fair value, with changes in fair value being recorded through earnings. Valuation changes, net of related hedge gains and losses, are included in "Gain on mortgage-backed securities, net" in the Consolidated Statements of Earnings. We use third party models and an option adjusted spread ("OAS") valuation methodology to value these securities. The key assumptions include prepayment rates based on collateral type and the option adjusted spreads. Based on these assumptions, our model calculates implied discount rates, which we compare to market discount rates and risk premiums to determine if our valuations are reasonable.

In addition to considering actual prepayment trends, prepayment rates are determined utilizing four factor prepayment models. These factors are:

- 1) *Relative coupon rate.* The interest rate the borrower is currently paying relative to current market rates for that type of loan is the primary predictor of the borrower's likelihood to prepay. We assume that a borrower's propensity to prepay increases when the borrower's loan rate exceeds the current market rates.
- 2) *Seasoning.* Based on prepayment curves and other studies performed by industry analysts of prepayment activity over the life of a pool of loans, a pattern has been identified whereby prepayments typically peak in years 1 to 3, consistent with borrower moving habits.
- 3) *Seasonality.* Seasonality refers to the time of the year that prepayments occur. All else being constant, prepayments tend to be higher in summer months due to borrowers' tendency to move outside of the school year and lower in winter months due to the holiday season.
- 4) *Burn out.* Burn out is associated with a pool of mortgage loans which has endured a variety of high prepayment environments such that it may be assumed that the remaining borrowers are insensitive to any subsequent decline in interest rates. Consequently, all else being equal, projected prepayment speeds for such a pool of loans would be lower than a newly originated loan pool with comparable characteristics.

As cash flows must be estimated over the life of the pool of mortgage loans underlying the AAA-rated and agency interest-only securities, assumptions must be made about the level of interest rates over that same time horizon, which is primarily 3-5 years, as these securities have a weighted average life of approximately that period. We utilize a credit spread over the market LIBOR/swap forward curve to estimate the level of mortgage interest rates over the life of the pool of loans. We believe a forward curve, as opposed to static or spot interest rates, incorporates the market perception about expected changes in interest rates and provides a more realistic estimate of lifetime interest rates and therefore prepayment rates.

The discount rate represents the implicit yield a knowledgeable investor would require to purchase or own the projected cash flows. Using an OAS model, embedded options and other cash flow uncertainties are



quantified across a large number of hypothetical interest rate environments. The OAS is essentially the credit spread over the risk free rate after the option costs (e.g., hedge costs) are considered. Overall, we evaluate the reasonableness of the discount rate based on the spread over the risk free rate (duration adjusted LIBOR securities) relative to other cash flow sensitive investments with higher and lower risk profiles.

## **MORTGAGE SERVICING RIGHTS**

MSRs are created upon the sale of loans to GSEs, in private-label securitizations, and occasionally, from the sale of whole loans. We also purchase MSRs from time to time from third parties. The carrying value of MSRs in our financial statements represents our estimate of the present value of future cash flows to be received by us as servicer of the loans. In general, future cash flows are estimated by projecting the service fee, plus late fees and reinvestment income associated with interest earned on "float," after subtracting guarantee fees on agency portfolios, the cost of reimbursing investors for compensating interest associated with the early pay-off of loans, the market cost to service the loans, and the cost of mortgage insurance premiums (if applicable), and after giving effect to estimated prepayments.

MSRs are recorded at the lower of amortized cost or fair value with valuation changes, net of hedges, being reported in service fee income in the consolidated statements of earnings. We use a third party valuation model and a combination of OAS and static discount rate methodologies to value these assets. We use static models on collateral types such as ARM and subprime loans because we believe they are more appropriately valued using this methodology, as prepayments on these collateral types are less dependent on interest rate changes. The key assumptions include prepayment rates and, to a lesser degree, reinvestment income and discount rates. Prepayment speeds and OAS derived discount rates are determined using the methodology described above for AAA-rated and agency interest-only securities.

Reinvestment income represents the interest earned on custodial balances, often referred to as "float." Custodial balances are generated from the collection of borrower principal and interest and escrow balances which we generally hold on deposit for a short period until the required monthly remittance of such funds to a trustee. Reinvestment income is reduced by compensating interest, or "interest short," which we must pay to investors to compensate for interest lost on the early payoff of loans under the terms of the related pooling and servicing agreements. Our estimate of reinvestment income is a function of float, which is derived from our estimate of prepayment speeds, and an estimate of the interest rate we will earn by temporarily investing these balances. The reinvestment rate is typically based on the Federal Funds rate, and we factor in the market forward curve to derive a long-term estimate.

The valuation of MSRs includes numerous assumptions of varying lower sensitivities in addition to the assumptions discussed above. For example, other assumptions include, but are not limited to, market cost to service loans, prepayment penalties, delinquencies and the related late fees and escrow balances. We believe our valuation of MSRs as of December 31, 2003 was reasonable given market conditions at December 31, 2003 and quarterly third party valuations obtained from servicing brokers.

## **NON-INVESTMENT GRADE SECURITIES AND RESIDUALS**

### *General*

Non-investment grade securities and residuals are created upon the issuance of private-label securitizations and to a lesser extent purchased from third parties. Non-investment grade securities (rated below BBB) represent leveraged credit risk as they typically absorb a disproportionate amount of credit losses before such losses affect senior or other investment grade securities. Residuals represent the first loss position and are not typically rated by the nationally recognized agencies. The asset value of residuals represents the present value of future cash flows expected to be received by us from the excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction less the interest rate paid to the investors, less contractually specified servicing and trustee fees, and after giving effect to estimated prepayments and credit losses.



Cash flows are also dependent upon various restrictions and conditions specified in each transaction. For example, residual securities are not typically entitled to any cash flows unless an over-collateralization account has reached a certain level. The over-collateralization in an account represents the difference between the bond balance and the collateral underlying the security. A sample over-collateralization structure may require 2% of the original collateral balance for 36 months. At month 37, it may require 4%, but on a declining balance basis. Due to prepayments, that 4% requirement is generally less than the 2% required on the original balance. In addition, the transaction may include an over-collateralization "trigger event," the occurrence of which may require the over-collateralization to be increased. An example of such a trigger event is delinquency rates or cumulative losses on the underlying collateral that exceed stated levels. If over-collateralization targets were not met, the trustee would hold all cash flows that would otherwise flow to the residual security until such targets are met. A delay or reduction in the cash flows received will result in a lower valuation of the residual.

We consider certain of our investment grade securities to be hedges of our AAA-rated and agency interest-only securities and residual securities. We therefore classify them as trading securities in order to reflect changes in their fair values in our current income. Residual securities are also classified as trading securities so that the accounting for these securities will mirror the economic hedging activities. All other mortgage-backed securities, including the majority of our non-investment grade securities, are classified as available for sale. At least quarterly, we evaluate the carrying value of non-investment grade and residual securities in light of the actual performance of the underlying loans. If fair value is less than amortized cost and the estimated undiscounted cash flows have decreased compared to the prior period, the impairment is recorded through earnings. We classify our non-investment grade residuals as trading and therefore record them at our estimate of their fair value, with changes in fair value being recorded through earnings. We use a third party model, using the "cash out" method to value these securities. This method reflects when we receive the cash, which may be later than when the trust receives the cash. The model takes into consideration the cash flow structure specific to each transaction (such as over-collateralization requirements and trigger events). The key valuation assumptions include credit losses, prepayment rates and, to a lesser degree, discount rates.

### *Loss Estimates*

We use a proprietary loss estimation model to project credit losses. This model was developed utilizing our actual loss experience for prime and subprime loans. The modeling logic has been reviewed by a third party specialist in this area and validated. The expected loan loss is a function of loan amount, conditional default probability and projected loss severity. Characteristics that impact default probability vary depending on loan type and current delinquency status, but generally include the borrower's credit score, loan-to-value ratio, loan amount, debt to income ratio and loan purpose, among other variables. Characteristics that impact loss severity includes unpaid principal balance, loan-to-value, days to liquidation, mortgage insurance status, cash out versus no cash out financing and primary residence status. The loss estimation model also includes conditional default curves, which relate to the expected timing of the estimated loss. In our experience, default probabilities generally reach a peak within two to three years of loan origination and become less likely after four to five years. While there can be no assurance as to the accuracy of the model in predicting losses, we and a third party specialist have "back tested" our model and have validated the model's default probability logic. The model is updated and recalibrated periodically based on our on-going actual loss experience.

### *Prepayment Speeds*

We estimate prepayments on a collateral-specific basis and consider actual prepayment activity for the collateral pool. We also consider the current interest rate environment, the market forward curve projections and prepayments estimated on similar collateral pools where we own MSRs. Increasing prepayments tend to benefit the valuation of non-investment grade securities as the projected loss gets reduced due to the shorter loan life. However, increasing prepayments may reduce the value of residual securities since these securities represent excess spread on the underlying collateral. Higher prepayments reduce the life of the residual and total cash flows resulting in a reduction in the fair value of the residual.



### *Discount Rates*

We determine static discount rates based on a number of factors, including but not limited to the collateral type and quality, structure of the transaction, market interest rates and our ability to generate an appropriate after tax return on equity given the other valuation assumptions and resulting projected cash flows. We also review the discount rates used by other investors for similar securities to evaluate the appropriateness of our assumptions. As non-investment grade securities and residuals are our highest risk profile assets, and liquidity is generally the lowest for these assets on a duration adjusted basis, the spread over the risk free rate is also the highest of all of our cash flow sensitive assets.

### **DERIVATIVES AND OTHER HEDGING INSTRUMENTS**

The accounting and reporting standards for derivative financial instruments are established in SFAS 133. SFAS 133 requires that we recognize all derivative instruments on the balance sheet at fair value. The accounting for changes in fair value of these instruments depends on the intended use of the derivative and the associated designation. If certain conditions are met, hedge accounting may be applied and the derivative instrument may be specifically designated as a fair value hedge, a cash flow hedge, or a hedge of certain foreign currency exposure. In designating hedges of certain funded mortgage loans in our pipeline and our borrowings and advances as fair value hedges and cash flow hedges, respectively, we are required by SFAS 133 to establish at the inception of the hedge the method we will use in assessing the effectiveness of the hedging relationship, for hedge accounting qualification, and in measuring and recognizing hedge ineffectiveness, for financial reporting purposes. In accordance with the requirements of SFAS 133, these methods are consistent with our approach to managing risk.

In complying with the requirements of SFAS 133, our management team has made certain judgments in identifying derivative instruments, designating hedged risks, calculating hedge effectiveness, and measuring, recognizing, and classifying changes in value. Critical judgments made with respect to our hedge designations include:

- *Hedge effectiveness testing methodology.* SFAS 133 requires that we identify and consistently follow a methodology justifying our expectation that our hedges will continue to be highly effective at achieving offsetting changes in value. In devising such a methodology, which is consistent with our risk management policy, we have exercised judgment in identifying (1) the scope and the types of historical data and observations, (2) the mathematical formulas and quantitative steps to calculate hedge effectiveness, and (3) the frequency and necessity of updates to our calculations and assumptions. As discussed in the footnotes to our financial statements, we have designated certain forwards and swaps to hedge the benchmark interest rate risk in our funded mortgage loan pipeline and borrowings exposures, respectively, as SFAS 133 hedges. If the results of our hedge effectiveness tests determine that our hedges are not effective, we do not adjust the basis of our pipeline mortgage loans, in the case of disqualified fair value hedges, or defer derivative gains and losses in Other Comprehensive Income ("OCI"), in the case of disqualified cash flow hedges, from the date our hedges were last effective to the date they are again compliant with SFAS 133. Therefore, the ability to recognize hedge accounting basis adjustments and OCI deferrals may cause us to report materially different results under different conditions or using different assumptions.
- *Hedge ineffectiveness measurement.* Regardless of our method of proving hedge effectiveness, we are required to recognize hedge ineffectiveness to the extent that exact offset is not achieved, as defined by SFAS 133. As discussed in the footnotes to the financial statements, the estimated fair value amounts of our financial instruments have been determined using available market information and valuation methods that we believe are appropriate under the circumstances. These estimates are inherently subjective in nature and involve matters of significant uncertainty and judgment to interpret relevant market and other data. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts, and therefore on the recognition of basis adjustments and OCI deferrals for hedged mortgage loans and forecasted borrowing/advance cash



flows, respectively, as well as the hedge ineffectiveness recognized in the income statement for both hedge types.

Some of our hedges, certain elements of our pipeline which SFAS 133 requires us to carry at fair value as a derivative instrument, and other derivative instruments (including those we consider "economic" hedges as opposed to accounting hedges) for which we do not designate hedging relationships, involve estimates of fair value where no direct exchange-traded or indirect "proxy" market prices are immediately available. As noted above and in the footnotes to our financial statements, we employ available market information and valuation methods that we believe are appropriate under the circumstances and, as applicable, within the range of industry practice. Changes in either the mix of market information or the valuation methods used would change the fair values carried on the balance sheet, the associated impact on the income statement, and the application and impacts of SFAS 133 hedge accounting.

Non-derivative contracts sometimes contain embedded terms meeting the definition of a derivative instrument under SFAS 133. In certain circumstances, management has concluded that such terms are appropriately excluded from fair value accounting as they are clearly and closely related to the economic characteristics of the non-derivative "host" contract, in accordance with SFAS 133. Under different facts and circumstances, should such embedded terms not be considered clearly and closely related, recognition of such embedded derivatives on the balance sheet at fair value would be required by SFAS 133.

### ALLOWANCE FOR LOAN LOSSES

We utilize several methodologies to estimate the adequacy of our ALL and to ensure that the allocation of the ALL to the various portfolios is reasonable given current trends and the economic outlook. In this regard, we segregate assets into homogeneous pools of loans and heterogeneous loans.

Homogeneous pools of loans exhibit similar characteristics and, as such, can be evaluated as pools of assets through the assessment of default probabilities and corresponding loss severities. Our homogeneous pools include residential mortgage loans, manufactured home loans and home improvement loans. The estimate of the allowance for loan losses for homogeneous pools is based on expected inherent losses resulting from four methodologies:

- 1) *Internal loan loss estimation model* — This model estimates losses based on several key loan characteristics. For further discussion regarding this model, see the previous section entitled "Non-Investment Grade Securities and Residuals — Loss Estimates."
- 2) *Portfolio level delinquency migration analysis* — This analysis produces a range of projected losses based on current loss severities and the preceding 12 months of migration rates of delinquent loans into non-performing loans.
- 3) *Delinquency trend analysis* — This analysis provides the basis for estimating the direction of NPA and loss severity levels into future periods.
- 4) *Historical loss analysis* — This analysis compares the level of allowance to the historical losses actually incurred in prior years.

Our builder construction loans generally carry higher balances and involve unique loan characteristics that cannot be evaluated solely through the use of default rates, loss severities and trend analysis. To estimate an appropriate level of ALL for our heterogeneous loans, we constantly screen the portfolios on an individual asset basis to classify problem credits and to estimate potential loss exposure. In this estimation, we determine the level of adversely classified assets (using the classification criteria described below) in a portfolio and the related loss potential and extrapolate the weighting of those two factors across all assets in the portfolio.

Our asset classification methodology was designed in accordance with guidelines established by our supervisory regulatory agencies as follows:

- *Pass* — Assets classified Pass are assets that are well protected by the net worth and paying capacity of the borrower or by the value of the asset or underlying collateral.



- *Special Mention* — Special Mention assets have potential weaknesses that require close attention, but have not yet jeopardized the timely repayment of the asset in full.
- *Substandard* — This is the first level of adverse classification. Assets in this category are inadequately protected by the net worth and paying capacity of the borrower or by the value of the collateral. Substandard assets are characterized by the distinct possibility that some loss will occur if the deficiencies are not corrected.
- *Doubtful* — Assets in this category have the same weaknesses as a substandard asset, with the added characteristic that based on current facts, conditions and values, liquidation of the asset in full is highly improbable.
- *Loss* — Assets in the Loss category are considered uncollectible and of such little value that the continuance as an asset, without establishment of a specific valuation allowance, is not warranted.

## SECONDARY MARKET RESERVE

As part of the normal course of business involving loans sold to the secondary market, we are occasionally required to repurchase loans or make payments to settle breaches of the standard representations and warranties made as part of our loan sales or securitizations. The secondary market reserve includes probable losses on repurchases arising from representation and warranty claims, and probable obligations related to disputes with investors and vendors with respect to contractual obligations pertaining to mortgage origination activity. The reserve level is a function of expected losses based on actual pending claims and repurchase requests, historical experience, loan volume and loan sales distribution channels and the assessment of probable vendor or investor claims. An increase to this reserve is recorded as a reduction of the gain on sale of loans in our consolidated statements of earnings and the corresponding reserve is recorded in other liabilities in our consolidated balance sheets. At the time we repurchase a loan, the estimated loss on the loan is charged against this reserve and recorded as a reduction of the basis of the loan.

## SENSITIVITY ANALYSIS

Changing the assumptions used to estimate the fair value of AAA-rated and agency interest-only securities, MSRs and non-investment grade securities and residuals (“the retained assets”) could materially impact the amount recorded in gain on sale of loans. Initially, the estimation of the fair value of the retained assets from loan securitizations and sales impacts the financial statements of our mortgage banking segment. Thereafter, adjustments to fair value impact the investment portfolio’s financial statements. Provisions to the secondary market reserve impact IndyMac Mortgage Bank or IndyMac Consumer Bank, while adjustments to the ALL may impact any of our segments. Refer to “Note 13 — Transfers and Servicing of Financial Assets” in the consolidated financial statements of IndyMac for further information on the hypothetical effect on the fair value of our retained assets using various unfavorable variations of the expected levels of certain key assumptions used in valuing these assets at December 31, 2003.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we are exposed is interest rate risk, including fluctuations in short and long term interest rates. An additional risk is the early prepayment of loans held for investment, MBS and mortgage loans underlying our MSRs, AAA-rated and agency interest-only securities and residuals. The Investment Portfolio Group is responsible for the management of interest rate and prepayment risks subject to policies and procedures established by our management-level ALCO and board of directors-level ALCO. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors That May Affect Future Results” above for further discussion of risks.



## **HEDGING ACTIVITIES**

We utilize a variety of means in order to manage interest rate risk. We invest in MSRs and AAA-rated and agency interest-only securities to generate core interest and fee income. The value of these instruments and the income they provide tends to be counter-cyclical to the changes in production volumes and gain on sale of loans that result from changes in interest rates. With regard to the pipeline of mortgage loans held for sale, in general, we hedge this asset with a forward commitment to sell a Fannie Mae or Freddie Mac security of comparable maturity and weighted average interest rate. To hedge our investments in AAA-rated and agency interest-only securities and MSRs, we use several strategies, including buying and/or selling mortgage-backed or U.S. Treasury securities, futures, floors, swaps, or options, depending on several factors. Lastly, we enter into swap agreements and utilize FHLB advances to mitigate interest rate risk on mortgage loans held for investment. In connection with all of the above strategies, we use hedging instruments to reduce our exposure to interest rate risk, not to speculate on the direction of market interest rates.

## **MONITORING TOOLS**

Our management-level and board of directors-level ALCO members closely monitor interest rate risk. The primary measurement tool used to evaluate risk is an NPV analysis. An NPV analysis simulates the effects of an instantaneous and sustained change in interest rates (in a variety of basis point increments) to parallel interest rate shifts, on our assets and liabilities, commitments and hedges. The result is an estimate of the increase or decrease to net portfolio value. See "Item 7. Management's Discussion and Analysis — Overall Interest Rate Risk Management" for a further discussion of our NPV analysis.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information called for by this Item 8 is set forth beginning at page F-1 of this Form 10-K.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

The management of IndyMac is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934. As of December 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of IndyMac's disclosure controls and procedures. Based on that evaluation, management concluded that IndyMac's disclosure controls and procedures as of December 31, 2003 were effective in ensuring that information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized, and reported within the time period required by the SEC's rules and forms.

Management's responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report of Management on Internal Control over Financial Reporting included in our Annual Report, management assessed the Bank's system of internal control over financial reporting as of December 31, 2003, in relation to criteria for effective internal control over financial reporting as described in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2003, the Company's system of internal control over financial reporting met those criteria.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure of controls and procedures subsequent to December 31, 2003.



### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this Item 10 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this Item 12 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item 13 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

### **PART IV**

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is hereby incorporated by reference to IndyMac Bancorp's definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

#### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

- (a) (1) and (2) — Financial Statements and Schedules

The information required by this section of Item 15 is set forth in the Index to Financial Statements and Schedules at page F-2 of this Form 10-K.

- (3) — Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1*	Amended and Restated Agreement and Plan of Merger by and between SGV Bancorp, Inc. ("SGVB") and IndyMac Bancorp (formerly known as IndyMac Mortgage Holdings, Inc.), dated as of July 12, 1999 and Amended and Restated as of October 25, 1999 (incorporated by reference to Appendix A to the definitive joint proxy statement of IndyMac Bancorp and SGVB filed with the SEC on November 5, 1999).
3.1*	Restated Certificate of Incorporation of IndyMac Bancorp (incorporated by reference to Exhibit 3.1 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2000).
3.2*	Amended and Restated Bylaws of IndyMac Bancorp (incorporated by reference to Exhibit 3.2 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2000).
4.1*	Indenture (the "Indenture"), dated as of December 1, 1985, between Countrywide Mortgage Obligations, Inc. ("CMO, Inc.") and Bankers Trust Company, as Trustee ("BTC") (incorporated by reference to Exhibit 4.1 to CMO, Inc.'s Form 8-K filed with the SEC on January 24, 1986).



<u>Exhibit No.</u>	<u>Description</u>
4.2*	Series A Supplement, dated as of December 1, 1985, to the Indenture (incorporated by reference to Exhibit 4.2 to CMO, Inc.'s Form 8-K filed with the SEC on January 24, 1986).
4.3*	Indenture Supplement, dated as of September 1, 1987, among Countrywide Mortgage Obligations III, Inc. ("CMO III, Inc."), CMO, Inc. and BTC (incorporated by reference to Exhibit 4.1 to CMO III, Inc.'s Form 8-K filed with the SEC on October 9, 1987).
4.4*	Indenture dated as of November 14, 2001 between IndyMac Bancorp and The Bank of New York ("BoNY"), as Trustee (incorporated by reference to Exhibit 4.8 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
4.5*	First Supplemental Indenture dated as of November 14, 2001 between IndyMac Bancorp and BoNY, as Trustee (incorporated by reference to Exhibit 4.9 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
4.6*	2000 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to IndyMac Bancorp's Form 10-Q for the quarter ended June 30, 2002).
4.7*	Rights Agreement dated as of October 17, 2001 between IndyMac Bancorp and BoNY, as Rights Agent (incorporated by reference to Exhibit 4.1 to IndyMac Bancorp's Form 8-K filed with the SEC on October 18, 2001).
4.8*	2002 Incentive Plan, as amended and restated as of March 4, 2003 (incorporated by reference to Exhibit 4.12 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.1*	Amended and Restated Trust Agreement dated as of November 14, 2001 between IndyMac Bancorp, as Sponsor, Roger H. Molvar and Richard L. Sommers, as Administrative Trustees, Wilmington Trust Company, as Property Trustee and as Delaware Trustee, BoNY, as Paying Agent, Registrar, Transfer Agent and Authenticating Agent and several Holders of the Securities (incorporated by reference to Exhibit 10.11 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
10.2*	Unit Agreement dated as of November 14, 2001 between IndyMac Bancorp, IndyMac Capital Trust I, Wilmington Trust Company, as Property Trustee, and BoNY, as Agent (incorporated by reference to Exhibit 10.12 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
10.3*	Warrant Agreement dated as of November 14, 2001 between IndyMac Bancorp and BoNY, as Warrant Agent (incorporated by reference to Exhibit 10.13 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
10.4*	Guarantee Agreement dated as of November 14, 2001 between IndyMac Bancorp, as Guarantor, and BoNY, as Guarantee Trustee (incorporated by reference to Exhibit 10.14 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2001).
10.5*	Employment Agreement dated October 18, 2000 between IndyMac Bank and Roger H. Molvar (incorporated by reference to Exhibit 10.16 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2000).
10.6*	Rider to Employment Agreement dated December 15, 2000 between IndyMac Bank and Roger H. Molvar (incorporated by reference to Exhibit 10.20 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2000).
10.7*	Employment Agreement dated July 1, 2001 between IndyMac Bank and Grosvenor Nichols (incorporated by reference to Exhibit 10.19 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.8*	Director Emeritus Plan Agreement and Consulting Agreement dated January 22, 2002 between IndyMac Bancorp and Thomas J. Kearns (incorporated by reference to Exhibit 10.20 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.9*	Employment Agreement dated February 28, 2002 between IndyMac Bank and Scott Keys (incorporated by reference to Exhibit 10.1 to IndyMac Bancorp's Form 10-Q for the quarter ended March 31, 2002).



<u>Exhibit No.</u>	<u>Description</u>
10.10*	Amended and Restated Employment Agreement dated July 23, 2002 between IndyMac Bancorp and Michael W. Perry (incorporated by reference to Exhibit 10.2 to IndyMac Bancorp's Form 10-Q for the quarter ended June 30, 2002).
10.11*	Director Emeritus Agreement dated August 1, 2002 between IndyMac Bancorp and Frederick J. Napolitano (incorporated by reference to Exhibit 10.23 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.12*	Employment Agreement dated September 1, 2002 between IndyMac Bank and S. Blair Abernathy (incorporated by reference to Exhibit 10.2 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2002).
10.13*	Employment Agreement dated October 1, 2002 between IndyMac Bank and John Olinski (incorporated by reference to Exhibit 10.25 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.14*	Employment Agreement dated November 1, 2002 between IndyMac Bank and Richard Wohl (incorporated by reference to Exhibit 10.26 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.15*	Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.27 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.16*	Retirement Agreement dated February 10, 2003 between IndyMac Bancorp and David S. Loeb (incorporated by reference to Exhibit 10.28 to IndyMac Bancorp's Form 10-K for the year ended December 31, 2002).
10.17*	IndyMac Bancorp, Inc. Director Emeritus Plan effective as of April 30, 2003 (incorporated by reference to Exhibit 10.1 to IndyMac Bancorp's Form 10-Q for the quarter ended June 30, 2003).
10.18	IndyMac Bank Deferred Compensation Plan, Amended and Restated Effective as of September 15, 2003, as amended.
10.19	Employment Agreement dated March 1, 2004 between IndyMac Bank and Raymond Matsumoto.
10.20*	Employment Agreement dated July 31, 2003 between IndyMac Bank and Thomas H. Potts (incorporated by reference to Exhibit 10.4 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2003).
10.21*	Employment Agreement dated July 31, 2003 between IndyMac Bank and Charles Allen Williams (incorporated by reference to Exhibit 10.5 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2003).
10.22*	Employment Agreement dated September 15, 2003 between IndyMac Bank and Sherry Dupont (incorporated by referenced to Exhibit 10.2 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2003).
10.23*	Employment Agreement dated September 29, 2003 between IndyMac Bank and Ashwin Adarkar (incorporated by referenced to Exhibit 10.1 to IndyMac Bancorp's Form 10-Q for the quarter ended September 30, 2003).
10.24	Agreement of Purchase and Sale and Joint Escrow Instructions dated October 31, 2003 by and between MS Pasadena, LLC (Seller) and IndyMac Bank (Buyer) for Pasadena Corporate Center, 3453, 3455, 3465, 3475 East Foothill Boulevard, Pasadena, California.
21.1	List of Subsidiaries.
23.1	Consent of Ernst & Young LLP.
31.1	Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	U.S.C. Section 1350, as adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



<u>Exhibit No.</u>	<u>Description</u>
32.2	Chief Financial Officer's Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Reports on Internal Control Over Financial Reporting

\* Incorporated by reference.

(b) — Reports on Form 8-K

The Company furnished a report on Form 8-K on October 17, 2003. Items included: Item 9. Regulation FD Disclosure. Press release announcing revised earnings guidance for 2003.

The Company also furnished a report on Form 8-K on October 31, 2003. Items included: Item 12. Disclosure of Results of Operations and Financial Condition. Press release announcing results of operations and financial condition for the quarter ended September 30, 2003 and related webcast presentation.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pasadena, State of California, on March 5, 2004.

INDYMAC BANCORP, INC.

By: /s/ MICHAEL W. PERRY

Michael W. Perry  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL W. PERRY</u> Michael W. Perry	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 5, 2004
<u>/s/ SCOTT KEYS</u> Scott Keys	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2004
<u>/s/ LOUIS E. CALDERA</u> Louis E. Caldera	Director	March 5, 2004
<u>/s/ LYLE E. GRAMLEY</u> Lyle E. Gramley	Director	March 5, 2004
<u>/s/ HUGH M. GRANT</u> Hugh M. Grant	Director	March 5, 2004
<u>/s/ PATRICK C. HADEN</u> Patrick C. Haden	Director	March 5, 2004
<u>/s/ TERRANCE G. HODEL</u> Terrance G. Hodel	Director	March 5, 2004
<u>/s/ ROBERT L. HUNT II</u> Robert L. Hunt II	Director	March 5, 2004
<u>/s/ JAMES R. UKROPINA</u> James R. Ukropina	Director	March 5, 2004



**CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT AUDITORS**

**INDYMAC BANCORP, INC.  
AND SUBSIDIARIES**

**December 31, 2003, 2002 and 2001**



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
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## **Report of Independent Auditors**

Board of Directors and Shareholders  
IndyMac Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of IndyMac Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IndyMac Bancorp, Inc. and subsidiaries at December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
January 23, 2004



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2003	2002
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Cash and cash equivalents .....	\$ 115,485	\$ 196,720
Securities classified as trading (\$70.9 million and \$589.6 million pledged as collateral for borrowings at December 31, 2003 and 2002, respectively) ....	223,632	765,883
Mortgage-backed securities available for sale, amortized cost of \$1.6 billion (\$1.5 billion pledged as collateral for borrowings at December 31, 2003 and 2002) .....	1,613,974	1,573,210
Loans receivable:		
Loans held for sale		
Prime .....	2,196,488	1,939,780
Subprime .....	295,008	213,405
Consumer lot loans .....	81,752	74,498
Total loans held for sale .....	2,573,248	2,227,683
Loans held for investment		
SFR mortgage .....	4,945,439	2,096,517
Consumer construction .....	1,145,526	875,335
Builder construction .....	484,397	482,408
HELOC .....	711,494	312,881
Land and other mortgage .....	126,044	130,454
Income property .....	36,285	64,053
Allowance for loan losses .....	(52,645)	(50,761)
Total loans held for investment .....	7,396,540	3,910,887
Total loans receivable (\$7.6 billion and \$4.3 billion pledged as collateral for borrowings at December 31, 2003 and 2002) .....	9,969,788	6,138,570
Mortgage servicing rights .....	443,688	300,539
Investment in Federal Home Loan Bank stock, at cost .....	313,284	155,443
Interest receivable .....	51,758	47,089
Goodwill and other intangible assets .....	33,697	34,549
Foreclosed assets .....	23,677	36,526
Other assets .....	451,408	325,925
Total assets .....	<u>\$13,240,391</u>	<u>\$9,574,454</u>



	December 31,	
	2003	2002
	(Dollars in thousands, except share data)	
<b>Liabilities and Shareholders' Equity</b>		
Deposits .....	\$ 4,350,773	\$3,140,502
Advances from Federal Home Loan Bank .....	4,934,911	2,721,783
Other borrowings .....	2,622,094	2,608,534
Other liabilities .....	315,182	253,670
Total liabilities .....	12,222,960	8,724,489
<b>Shareholders' Equity</b>		
Preferred stock — authorized, 10,000,000 shares of \$0.01 par value; none issued .....	—	—
Common stock — authorized, 200,000,000 shares of \$0.01 par value; issued 85,914,552 shares (56,760,313 outstanding) at December 31, 2003 and issued 83,959,547 shares (54,829,486 outstanding) at December 31, 2002 .....	859	840
Additional paid-in-capital .....	1,043,856	1,007,936
Accumulated other comprehensive loss .....	(26,454)	(17,747)
Retained earnings .....	518,408	377,707
Treasury stock, 29,154,239 shares and 29,130,061 shares at December 31, 2003 and 2002, respectively .....	(519,238)	(518,771)
Total shareholders' equity .....	1,017,431	849,965
Total liabilities and shareholders' equity .....	<u>\$13,240,391</u>	<u>\$9,574,454</u>

The accompanying notes are an integral part of these statements.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands, except per share data)		
<b>Interest income</b>			
Mortgage-backed and other securities .....	\$ 83,903	\$112,065	\$121,867
Loans held for sale			
Prime .....	180,630	127,571	156,251
Subprime .....	26,009	12,416	19,780
HELOC .....	—	6,929	1,951
Consumer lot loans .....	7,699	1,582	—
Total loans held for sale .....	214,338	148,498	177,982
Loans held for investment			
SFR mortgage .....	140,588	89,864	110,004
Consumer construction .....	60,392	55,660	42,241
Builder construction .....	33,321	37,501	53,650
HELOC .....	21,885	3,124	1,145
Land and other mortgage .....	7,817	18,462	27,644
Income property .....	3,793	5,225	4,872
Total loans held for investment .....	267,796	209,836	239,556
Other .....	9,804	6,705	5,535
Total interest income .....	575,841	477,104	544,940
<b>Interest expense</b>			
Deposits .....	87,828	105,188	98,781
Advances from Federal Home Loan Bank .....	113,032	101,647	95,222
Other borrowings .....	64,044	60,981	148,315
Total interest expense .....	264,904	267,816	342,318
Net interest income .....	310,937	209,288	202,622
<b>Provision for loan losses</b> .....	19,700	16,154	22,022
Net interest income after provision for loan losses .....	291,237	193,134	180,600
<b>Other income</b>			
Gain on sale of loans .....	387,311	300,800	229,444
Service fee (loss) income .....	(16,081)	19,197	28,963
(Loss) gain on mortgage-backed securities, net .....	(30,853)	4,439	7,097
Fee and other income .....	76,525	57,736	52,036
Total other income .....	416,902	382,172	317,540
Net revenues .....	708,139	575,306	498,140
<b>Other expense</b>			
Operating expenses .....	424,605	344,058	278,201
Amortization of other intangible assets .....	852	1,088	3,392
Total other expense .....	425,457	345,146	281,593



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS — (Continued)**

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands, except per share data)		
Earnings before provision for income taxes and cumulative effect of a change in accounting principle .....	282,682	230,160	216,547
Provision for income taxes .....	<u>111,379</u>	<u>86,767</u>	<u>89,974</u>
Earnings before cumulative effect of a change in accounting principle .....	171,303	143,393	126,573
Cumulative effect of a change in accounting principle .....	<u>—</u>	<u>—</u>	<u>(10,185)</u>
<b>Net earnings</b> .....	<u><b>\$171,303</b></u>	<u><b>\$143,393</b></u>	<u><b>\$116,388</b></u>
Earnings per share before cumulative effect of a change in accounting principle			
Basic .....	\$ 3.10	\$ 2.47	\$ 2.07
Diluted .....	\$ 3.01	\$ 2.41	\$ 2.00
Earnings per share from cumulative effect of a change in accounting principle			
Basic .....	\$ —	\$ —	\$ (0.16)
Diluted .....	\$ —	\$ —	\$ (0.16)
Net earnings per share			
Basic .....	\$ 3.10	\$ 2.47	\$ 1.91
Diluted .....	\$ 3.01	\$ 2.41	\$ 1.84
Weighted average shares outstanding			
Basic .....	55,247	58,028	60,927
Diluted .....	56,926	59,592	63,191
Dividends paid per share .....	\$ 0.55	\$ —	\$ —

The accompanying notes are an integral part of these statements.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**Year Ended December 31, 2003, 2002 and 2001**

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Comprehensive Income	Treasury Stock	Total Shareholders' Equity
(Dollars in thousands, except share data)								
Balance at December 31, 2000 .....	62,176,316	\$818	\$ 920,205	\$ (2,603)	\$117,926		\$(308,453)	\$ 727,893
Common stock options exercised .....	1,417,038	14	19,984	—	—	\$ —	—	19,998
Directors' and officers' notes receivable .....	—	—	(48)	—	—	—	—	(48)
Deferred compensation, restricted stock .....	62,189	—	2,318	—	—	—	—	2,318
401(k) contribution .....	73,453	1	1,876	—	—	—	—	1,877
Net gain on mortgage-backed securities available for sale .....	—	—	—	2,136	—	2,136	—	2,136
Net unrealized gain on derivatives used in cash flow hedges .....	—	—	—	1,037	—	1,037	—	1,037
Dividend reinvestment plan .....	1,524	—	37	—	—	—	—	37
Purchases of common stock .....	(3,364,254)	—	—	—	—	—	(78,775)	(78,775)
Issuance of warrants .....	—	—	52,277	—	—	—	—	52,277
Net earnings .....	—	—	—	—	116,388	116,388	—	116,388
Total comprehensive income .....	—	—	—	—	—	119,561	—	—
Balance at December 31, 2001 .....	60,366,266	833	996,649	570	234,314		(387,228)	845,138
Common stock options exercised .....	617,243	7	9,803	—	—	—	—	9,810
Directors' and officers' notes receivable .....	—	—	(168)	—	—	—	—	(168)
Deferred compensation, restricted stock .....	28,447	—	1,619	—	—	—	—	1,619
Net gain on mortgage-backed securities available for sale .....	—	—	—	476	—	476	—	476
Net unrealized loss on derivatives used in cash flow hedges .....	—	—	—	(18,793)	—	(18,793)	—	(18,793)
Dividend reinvestment plan .....	1,341	—	33	—	—	—	—	33
Purchases of common stock .....	(6,183,811)	—	—	—	—	—	(131,543)	(131,543)
Net earnings .....	—	—	—	—	143,393	143,393	—	143,393
Total comprehensive income .....	—	—	—	—	—	125,076	—	—
Balance at December 31, 2002 .....	54,829,486	840	1,007,936	(17,747)	377,707		(518,771)	849,965
Common stock options exercised .....	1,740,786	19	33,114	—	—	—	—	33,133
Directors' and officers' notes payments .....	—	—	502	—	—	—	—	502
Deferred compensation, restricted stock .....	214,219	—	2,304	—	—	—	—	2,304
Net loss on mortgage-backed securities available for sale .....	—	—	—	(5,414)	—	(5,414)	—	(5,414)
Net unrealized loss on derivatives used in cash flow hedges .....	—	—	—	(3,293)	—	(3,293)	—	(3,293)
Cash dividends paid — \$0.55 per common share .....	—	—	—	—	(30,602)	—	—	(30,602)
Purchases of common stock .....	(24,178)	—	—	—	—	—	(467)	(467)
Net earnings .....	—	—	—	—	171,303	171,303	—	171,303
Total comprehensive income .....	—	—	—	—	—	\$162,596	—	—
Balance at December 31, 2003 .....	<u>56,760,313</u>	<u>\$859</u>	<u>\$1,043,856</u>	<u>\$ (26,454)</u>	<u>\$518,408</u>		<u>\$(519,238)</u>	<u>\$1,017,431</u>

The accompanying notes are an integral part of these statements.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 171,303	\$ 143,393	\$ 116,388
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Total amortization and depreciation	186,801	139,850	139,543
Provision for valuation adjustment of mortgage servicing rights	5,543	107,387	50,920
Gain on sale of loans	(387,311)	(300,800)	(229,444)
Loss (gain) on mortgage-backed securities, net	30,853	(4,439)	(7,097)
Provision for loan losses	19,700	16,154	22,022
Cumulative effect of a change in accounting principle	—	—	10,185
Net increase (decrease) in deferred tax liability	57,942	(6,953)	101,549
Net decrease (increase) in mortgage servicing rights	7,527	(376)	(3,063)
Net decrease (increase) in other assets and liabilities	87,573	(79,897)	23,541
Net cash provided by operating activities before activity for trading securities, loans held for sale and premiums paid for derivative instruments	179,931	14,319	224,544
Net sales (purchases) of trading securities	597,848	(227,708)	1,512
Net purchases of loans held for sale	(237,154)	(723,617)	(1,348,042)
Net (increase) decrease on premiums paid for derivative instruments	(93,043)	23,856	(36,163)
Net cash provided by (used in) operating activities	447,582	(913,150)	(1,158,149)
<b>Cash flows from investing activities:</b>			
Net (purchases) sales of and payments from loans held for investment	(3,655,817)	(529,004)	246,471
Net purchases of and payments from mortgage-backed securities available for sale	(43,774)	(361,476)	(425,643)
Net increase in investment in Federal Home Loan Bank stock, at cost	(157,841)	(55,447)	(36,715)
Net purchases of property, plant and equipment	(102,600)	(37,425)	(27,430)
Net cash used in investing activities	(3,960,032)	(983,352)	(243,317)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in deposits	1,210,271	(98,368)	2,440,731
Net increase in advances from Federal Home Loan Bank	2,212,914	722,170	734,307
Net (decrease) increase in borrowings	(53,498)	1,436,374	(1,802,279)
Net proceeds from issuance of trust preferred securities and warrants	58,962	—	168,564
Net proceeds from stock options and notes receivable	33,635	11,294	24,346
Cash dividends paid	(30,602)	—	—
Purchases of common stock	(467)	(131,543)	(78,775)
Net cash provided by financing activities	3,431,215	1,939,927	1,486,894
Net (decrease) increase in cash and cash equivalents	(81,235)	43,425	85,428
Cash and cash equivalents at beginning of period	196,720	153,295	67,867
Cash and cash equivalents at end of period	\$ 115,485	\$ 196,720	\$ 153,295
<b>Supplemental cash flow information:</b>			
Cash paid for interest	\$ 262,518	\$ 268,842	\$ 351,911
Cash paid for income taxes	\$ 42,362	\$ 57,595	\$ 2,777
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Net transfer of loans held for sale to loans held for investment	\$ 2,794,344	\$ 473,959	\$ 638,216
Net transfer of mortgage-backed securities available for sale to trading	\$ —	\$ 219,749	\$ 263,274
Net transfer of mortgage servicing rights to trading securities	\$ 47,311	\$ 75,371	\$ —

The accompanying notes are an integral part of these statements.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

IndyMac Bancorp, Inc. is a savings and loan holding company. References to "IndyMac Bancorp" or the "Parent Company" refer to the parent company alone while references to "IndyMac," the "Company," "we" or "us" refer to IndyMac Bancorp and its consolidated subsidiaries.

On July 1, 2000, IndyMac Bancorp acquired (the "acquisition") SGV Bancorp, Inc. ("SGVB"). SGVB was the parent of First Federal Savings and Loan Association of San Gabriel Valley, a federal savings association. In conjunction with the acquisition, IndyMac Mortgage Holdings, Inc. reorganized into two entities: IndyMac Bancorp, Inc., a registered savings and loan holding company and IndyMac Bank, F.S.B. ("IndyMac Bank"), a federally chartered stock savings association, the deposits of which are insured by the Federal Deposit Insurance Corporation ("FDIC"). Substantially all of the assets and operations of IndyMac Bancorp and its subsidiaries were contributed to its subsidiary bank, IndyMac Bank.

*Financial Statement Presentation*

For the years ended December 31, 2003, 2002 and 2001 the consolidated financial statements include the accounts of IndyMac Bancorp and its subsidiaries, including IndyMac Bank. All significant intercompany balances and transactions with IndyMac's subsidiaries have been eliminated in consolidation. The consolidated financial statements of IndyMac are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Certain prior year amounts have been reclassified to conform to the current year presentation.

*Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported and the disclosure of contingent assets and liabilities. Significant estimates include the allowance for loan losses, the secondary market reserve and the value of our hedging instruments, mortgage servicing rights ("MSRs"), AAA-rated interest-only securities, non-investment grade securities and residuals for which active markets do not exist. Actual results may differ significantly from those estimates and assumptions.

*Derivative Instruments*

In seeking to protect our financial assets and liabilities from the effects of changes in market interest rates, we have devised and implemented a comprehensive asset/liability management strategy that seeks, on an economic and accounting basis, to mitigate significant fluctuations in our financial position and results of operations. We invest in MSRs and AAA-rated and agency interest-only securities to generate core interest income. The value of these instruments and the income they provide tends to be somewhat counter-cyclical to the changes in production volumes and gain on sale of loans that result from changes in interest rates. With regard to the pipeline of mortgage loans held for sale, in general, we hedge this asset with forward commitments to sell Fannie Mae ("FNMA") or Freddie Mac ("FHLMC") securities with comparable maturities and weighted average interest rates. To hedge our investments in AAA-rated and agency interest-only securities and MSRs, we use several strategies, including buying and/or selling mortgage-backed or U.S. Treasury securities, futures, floors, swaps, or options, depending on several factors. Lastly, we enter into swap and swaption agreements to hedge the cash flows on FHLB advances in connection with interest rate risk hedge on mortgage loans held for investment and mortgage-backed securities.

Effective January 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting For Derivative Instruments and Hedging Activities," as amended and interpreted ("SFAS 133"). SFAS 133 requires that we recognize all derivative instruments on the balance



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

sheet at fair value. If certain conditions are met, hedge accounting may be applied and the derivative instrument may be specifically designated as:

- (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment, referred to as a *fair value hedge*
- (b) a hedge of the exposure to the variability of cash flows of a recognized asset, liability or forecasted transaction, referred to as a *cash flow hedge*
- (c) a hedge of certain foreign currency exposure

In the case of a qualifying fair value hedge, changes in the value of the derivative instruments that are highly effective (as defined in SFAS 133) are recognized in current earnings along with the change in value of the designated hedged item. In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that are highly effective are recognized in accumulated other comprehensive (loss) income ("OCI"), until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized through earnings. Upon termination of a cash flow hedge, the remaining cost of that hedge is amortized over the remaining life of the hedged item. We have derivatives in place to hedge the exposure to the variability in future cash flows for forecasted transactions through 2009. Derivatives that are non-designated hedges, as defined in SFAS 133, are adjusted to fair value through earnings. We formally document all qualifying hedge relationships, as well as our risk management objective and strategy for undertaking each hedge transaction. We are not a party to any foreign currency hedge relationships.

***Cash and Cash Equivalents***

Cash and cash equivalents include non-restricted cash on deposit and overnight investments.

***Mortgage-Backed and U.S. Treasury Securities***

Mortgage-backed and U.S. Treasury securities consist of U.S. Treasury securities, agency securities, AAA-rated senior securities, investment and non-investment grade securities, AAA-rated and agency interest-only and principal-only securities, and residual securities. AAA-rated and agency interest-only securities, and residual securities, as well as the securities that the Company considers as hedges of its AAA-rated and agency interest-only securities, residual securities and MSRs, are carried as trading securities. All other mortgage-backed securities are classified as available for sale. All securities are carried at fair value, which is estimated based on market quotes, when available, or on discounted cash flow techniques using assumptions for prepayment rates, market yield requirements and credit losses when market quotes are not available. We estimate future prepayment rates based upon current and expected future interest rate levels, collateral seasoning and market forecasts, as well as relevant characteristics of the collateral underlying the assets, such as loan types, prepayment penalties, interest rates and recent prepayment experience. These assumptions are estimates as of a specific point in time and will change as interest rates or economic conditions change.

Securities classified as trading are carried at fair value with changes in fair value being recorded through current earnings. Accordingly, the hedge accounting provisions of SFAS 133 are not required. Unrealized gains and losses resulting from fair value adjustments on investment and mortgage-backed securities available for sale are excluded from earnings and reported as a separate component of OCI, net of taxes, in shareholders' equity. If we determine a decline in fair value of an available for sale security is other than temporary, an impairment write down is recognized in current earnings. Realized gains and losses are calculated using the specific identification method.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Loans Held for Sale*

Loans held for sale consist primarily of residential mortgage loans, which are secured by one-to-four family residential real estate located throughout the United States. We originate and purchase mortgage loans generally with the intent to sell them in the secondary market. Loans held for sale are carried at the lower of aggregate cost, net of purchase discounts or premiums, deferred fees, deferred origination costs and effects of hedge accounting, or fair value. We determine the fair value of loans held for sale using current secondary market prices for loans with similar coupons, maturities and credit quality.

The fair value of mortgage loans is subject to change primarily due to changes in market interest rates. Under our risk management policy, we hedge the changes in fair value of our loans held for sale primarily by selling forward contracts on agency securities. We formally designate and document these hedging relationships as fair value hedges and record the changes in the fair value of hedged loans held for sale as an adjustment to the carrying basis of the loan through gain on sale of loans in current earnings. We record the related hedging instruments at fair value with changes in fair value being recorded also in gain on sale of loans in current earnings.

As part of our mortgage banking operations, we enter into commitments to purchase or originate loans whereby the interest rate on the loans is determined prior to funding ("rate lock commitments"). We report rate lock commitments as derivatives as defined in SFAS 133 and determine the fair value of rate lock commitments using current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability, or fallout factor. Similar to loans held for sale, the fair value of rate lock commitments is subject to change primarily due to changes in interest rates. In addition, the value of rate lock commitments is affected by changes in the anticipated loan funding probability or fallout factor. Under our risk management policy, we hedge these changes in fair value primarily by selling forward contracts on agency securities. Both the rate lock commitments and the related hedging instruments are recorded at fair value with changes in fair value being recorded in current earnings in gain on sale of loans.

During the fourth quarter of 2003, the Securities and Exchange Commission ("SEC") announced its intention to issue accounting guidance requiring that rate lock commitments be treated as written options. This guidance, if issued, would change the timing of the Company's recognition of gain on sale revenue. Had the guidance been applied during the fourth quarter of 2003, the revenue related to the fair value of rate locks granted during the quarter would not have been recognized until the related loans were sold. This amount is estimated to be roughly 50% of total quarterly gain on sale revenue. Since the time between rate lock and loan sale is typically less than 90 days, this revenue would likely be recognized in the following quarter.

The SEC guidance is currently expected to be implemented as of April 1, 2004. This implementation is expected to have a one-time negative impact on gain on sale revenues in the quarter implemented, but affects only the timing of revenue recognition, generally by one quarter or less, not the ultimate amount of revenue recognized over time.

Our recognition of gain or loss on the sale of loans is accounted for in accordance with SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140 requires that a transfer of financial assets in which we surrender control over the assets be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The carrying value of the assets sold is allocated between the assets sold and the retained interests based on their relative fair values.



## INDYMAC BANCORP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

SFAS 140 requires, for certain transactions completed after the initial adoption date, a "true sale" analysis of the treatment of the transfer under state law as if the Corporation was a debtor under the bankruptcy code. A "true sale" legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor and the nature of retained servicing rights. The analytical conclusion as to a "true sale" is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met under SFAS 140, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted, including whether the special-purpose entity ("SPE") has complied with rules concerning qualifying special-purpose entities.

The Company is not eligible to become a debtor under the bankruptcy code. Instead, the insolvency of the Company is generally governed by the relevant provisions of the Federal Deposit Insurance Act and the FDIC's regulations. However, the "true sale" legal analysis with respect to the Company is similar to the "true sale" analysis that would be done if the Company were subject to the bankruptcy code.

A legal opinion regarding legal isolation for each securitization has been obtained by the Company. The "true sale" opinion provides reasonable assurance the purchased assets would not be characterized as the property of the transferring Company's receivership or conservatorship estate in the event of insolvency and also states the transferor would not be required to substantively consolidate the assets and liabilities of the purchaser SPE with those of the transferor upon such event.

The securitization process involves the sale of the loans to one of our wholly-owned bankruptcy remote special-purpose entities which then sells the loans to a separate, transaction-specific securitization trust in exchange for cash and certain trust interests that we retain. The securitization trust issues and sells undivided interests to third party investors that entitle the investors to specified cash flows generated from the securitized loans. These undivided interests are usually represented by certificates with varying interest rates, and are secured by the payments on the loans acquired by the trust, and commonly include senior and subordinated classes. The senior class securities are usually rated "AAA" by at least two of the major independent rating agencies and have priority over the subordinated classes in the receipt of payments. We have no obligation to provide funding support to either the third party investors or the securitization trusts. The third party investors or the securitization trusts generally have no recourse to our assets or us and have no ability to require us to repurchase their securities other than the standard representations and warranties. We do make certain representations and warranties concerning the loans, such as lien status or mortgage insurance coverage, and if we are found to have breached a representation or warranty we may be required to repurchase the loan from the securitization trust. We do not guarantee any securities issued by the securitization trusts. The securitization trusts represent "qualified special-purpose entities," which meet the legal isolation criteria of SFAS 140; and are therefore not consolidated for financial reporting purposes.

In addition to the cash the securitization trust pays for the loans, we often retain certain interests in the securitization trust as part of the trust's payment to us for the loans. These retained interests may include subordinated classes of securities, MSRs, AAA-rated interest-only securities, residual securities, cash reserve funds, or an overcollateralization account. Other than MSRs and AAA-rated interest-only securities, these retained interests are subordinated and serve as credit enhancement for the more senior securities issued by the securitization trust. AAA-rated interest-only securities and residual interests retained are included in securities classified as trading and other subordinated securities retained are included in mortgage-backed securities available for sale on the consolidated balance sheets.

We usually retain the servicing function for the securitized mortgage loans. As a servicer, we are entitled to receive a servicing fee equal to a specified percentage of the outstanding principal balance of the loans. We may also be entitled to receive additional servicing compensation, such as late payment fees or prepayment penalties.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Transaction costs associated with the securitizations are recognized as a component of the gain or loss at the time of sale.

***Loans Held for Investment***

Loans are classified as held for investment based on management's intent and ability to hold the loans for the foreseeable future. Loans held for investment are recorded at their unpaid principal balance, net of discounts and premiums, unamortized net deferred loan origination costs and fees and allowance for loan losses. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to income over the lives of the related loans. Unearned income, discounts and premiums are amortized to income over the estimated life of the loan using methods that approximate the interest method.

Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Loans are evaluated for collectability and, if appropriate, interest accrual is discontinued and previously accrued interest is reversed.

***Allowance for Loan Losses***

We maintain an allowance for loan losses on loans held for investment. Additions to the allowance are based on assessments of certain factors, including but not limited to, estimated probable losses on the loans, borrower credit quality, delinquency, prior loan loss experience and general economic conditions. Additions to the allowance are provided through a charge to earnings. Specific valuation allowances may be established for loans that are deemed impaired, if default by the borrower is deemed probable, and if the fair value of the loan or the collateral is estimated to be less than the gross carrying value of the loan. Actual losses on loans are recorded as a reduction to the allowance through charge-offs. Subsequent recoveries of amounts previously charged off are credited to the allowance. An allowance for loan losses is not provided for loans held for sale in accordance with US GAAP. The estimated probable losses on these loans are included in the discount recorded on loans held for sale.

We classify loans as impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. Loans are generally placed on non-accrual status when they are 90 days past due. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Specific factors used in the impaired loan identification process include, but are not limited to, delinquency status, loan-to-value ratio, the condition of the underlying collateral, credit history, and debt coverage. For impaired loans on non-accrual status, cash receipts are applied, and interest income is recognized, on a cash basis. For all other impaired loans, cash receipts are applied to principal and interest in accordance with the contractual terms of the loan and interest income is recognized on the accrual basis. Generally, a loan may be returned to accrual status when all delinquent principal and interest are brought current in accordance with the terms of the loan agreement and certain performance criteria have been met. Open-ended loans are charged off after they are delinquent in excess of 120 days. The estimated loss upon liquidation on all other loans held for investment are charged off upon foreclosure.

***Secondary Market Reserve***

The Company maintains a secondary market reserve for losses that arise in connection with loans that we are required to repurchase from whole loan sales or securitization transactions. This reserve, which totaled \$34 million at December 31, 2003, has two general components: reserves for repurchases arising from



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

representation and warranty claims; and reserves for disputes with investors and vendors with respect to contractual obligations pertaining to mortgage operations. Reserve levels are a function of expected losses based on actual pending claims and repurchase requests, historical experience, loan volume and loan sales distribution channels and the assessment of probable vendor or investor claims. While the ultimate amount of repurchases and claims is uncertain, management believes that the reserves are adequate. We will continue to evaluate the adequacy of our reserves and may continue to allocate a portion of our gain on sale proceeds to these reserves going forward. Changes in the level of provision to this reserve impacts the overall gain on sale margin from quarter to quarter. The reserve is included in other liabilities in the consolidated balance sheets.

***Mortgage Servicing Rights***

We retain MSR's in connection with our mortgage banking operations. Under primary servicing agreements, we collect monthly principal, interest and escrow payments from individual mortgagors and perform certain accounting and reporting functions on behalf of the mortgage investors. Under master servicing agreements, we collect monthly payments from various sub-servicers and perform certain accounting and reporting functions on behalf of the mortgage investors.

We recognize MSR's as separate assets only when servicing is contractually separated from the underlying mortgage loans by sale or securitization of the loans with servicing retained or by separate purchase or assumption of the servicing. The carrying value of mortgage loans sold or securitized is allocated between loans and mortgage servicing rights based upon the relative fair values of each. Purchased MSR's are initially recorded at cost. All MSR's are subsequently carried at the lower of the initial carrying value, adjusted for amortization, or fair value. MSR's are amortized over the period of, and in proportion to, the estimated future net servicing income.

Because a limited and illiquid market exists for MSR's, we determine the fair value of our MSR's using discounted cash flow techniques. Using a model developed by a third party, we determine the fair value of recognized MSR's by estimating the present value of anticipated future net cash flows. Estimates of fair value involve several assumptions, including the key valuation assumptions about market expectations of future prepayment rates, interest rates and discount rates, which are subject to change over time. Changes in these underlying assumptions could cause the fair value of MSR's to change significantly in the future. For purposes of impairment evaluation and measurement, we stratify our MSR's based on predominant risk characteristics, including primary versus master servicing, underlying loan type, interest rate type, and interest rate band. To the extent that the carrying value of MSR's exceeds fair value by individual strata, a valuation reserve is recorded as a charge to service fee income in current earnings. Valuation reserves for each stratum are then adjusted in subsequent periods to reflect changes in the measurement of impairment. Quarterly, we obtain third party opinions of value to test the reasonableness of our valuation models.

***Foreclosed Assets***

Real estate acquired in settlement of loans is initially recorded at the lower of cost or fair value less estimated costs to sell through a charge to the allowance for loan losses. Subsequent operating activity and declines in value are charged to earnings.

***Goodwill and Other Intangible Assets***

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, resulted from acquisitions we have made. Through December 31, 2001, substantially all of our goodwill was amortized using the straight-line method over 20 years. We also recorded a core deposit intangible asset in the acquisition of SGVB. The core deposit intangible asset is being amortized using an accelerated method of



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

amortization over a period of 10 years, which is the estimated life of the deposits acquired. We periodically review our goodwill and other intangible assets for other-than-temporary impairment. If circumstances indicate that other-than-temporary impairment might exist, recoverability of the asset is assessed based on expected undiscounted net cash flows. Effective January 1, 2002, goodwill is no longer amortized, but rather is tested for impairment annually as a result of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

***Fixed Assets***

Fixed assets are included in other assets in the consolidated balance sheets at December 31, 2003 and 2002. Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method in amounts sufficient to relate the cost of depreciable assets to current earnings over their estimated service lives. Estimated service lives of furniture and equipment generally range from three to seven years and 20 to 40 years for buildings. Leasehold improvements are amortized using the straight-line method over the lesser of the life of the lease or the service lives of the improvements.

***Software Development***

We capitalize external direct costs of materials and services consumed in developing or obtaining internal-use computer software and direct salary costs relating to the respective employees' time spent on the software project during the application development stage. The estimated service lives for capitalized software generally range from three to seven years.

***Income Taxes***

Deferred income taxes in the accompanying consolidated financial statements are computed using the liability method. Under this method, deferred income taxes are provided for differences between the book and tax basis of our assets and liabilities.

***Stock-Based Compensation***

Our stock-based compensation is provided to employees in accordance with the 2000 Stock Incentive Plan, as amended, and the 2002 Incentive Plan, as amended and restated, which allow for the grant of various types of awards (the "Awards") including, but not limited to, non-qualified stock options, incentive stock options, restricted stock awards, performance stock awards, and stock bonuses to our employees, including officers and directors. Awards are granted at the average market price of our stock on the grant date.

As permitted by SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), we continue to recognize compensation expense using the intrinsic value method specified in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Had compensation expense been



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recorded in accordance with SFAS 123, our net after tax earnings and earnings per share would have been as follows for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands, except per share data)		
<b>Net Earnings</b>			
As reported .....	\$171,303	\$143,393	\$116,388
Stock-based employee compensation expense .....	(16,319)	(38,360)	(24,053)
Tax effect .....	6,446	15,152	9,994
Adjusted .....	<u>\$161,430</u>	<u>\$120,185</u>	<u>\$102,329</u>
<b>Basic Earnings Per Share</b>			
As reported .....	\$ 3.10	\$ 2.47	\$ 1.91
Adjusted .....	\$ 2.92	\$ 2.07	\$ 1.68
<b>Diluted Earnings Per Share</b>			
As reported .....	\$ 3.01	\$ 2.41	\$ 1.84
Adjusted .....	\$ 2.84	\$ 2.02	\$ 1.62

In addition, during the years ended 2003, 2002, and 2001 we recognized compensation expense of \$2.3 million (\$1.4 million, net of taxes), \$1.6 million (\$980,000, net of taxes), \$2.3 million (\$1.4 million, net of taxes), respectively, related to restricted stock awards. These expenses were included in net earnings as reported.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants in 2003, 2002, and 2001: dividend yield ranging from 0% to 3.1%; expected volatility ranging from 28.2% to 39.6%; risk-free interest rates ranging from 3.2% to 5.4%, and expected lives for options granted ranged from three to five years for each of the three years ended December 31, 2003. The weighted average fair value of options granted during 2003, 2002, and 2001 was \$6.11, \$7.82, and \$8.03 per share, respectively.

### *New Accounting Pronouncements*

During 2003, the Financial Accounting Standards Board ("FASB") issued several new accounting pronouncements related to our industry:

- SFAS No. 149, "Amendment of FASB Statement No. 133 on Derivative and Hedging Transactions"
- SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"
- Financial Interpretation No. 46, "Consolidation of Variable Interest Entities"
- SFAS No. 132 R, "Employers' Disclosures about Pensions and Other Postretirement Benefits"
- Staff Position FAS 140-1, "Accounting for Accrued Interest Receivable Related to Securitized and Sold Receivables under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*"
- Staff Position 144-1, "Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, and the Measurement



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*"

- Staff Position 146-1, "Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity is, in Substance, an Enhancement to an Ongoing Benefit Arrangement"
- Staff Position FIN 45-1, "Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*"
- Staff Position FIN 45-2, "Whether FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value"

We adopted Financial Interpretation No. 46 on July 1, 2003 and deconsolidated the capital trusts formed in connection with the issuance of trust preferred securities, which had a very minimal effect on the consolidated financial statements. We are not aware of any other relationships that we have entered that are impacted by Financial Interpretation No. 46. See further discussion at Note 11.

Implementation of all other accounting pronouncements did not have any impact on our consolidated financial statements during 2003. We are not currently involved in any transactions which we would expect these new accounting pronouncements to have any material impact on our future results of operations, financial position, or liquidity.

**NOTE 2 — SEGMENT REPORTING**

IndyMac operates through its three main segments: IndyMac Mortgage Bank, IndyMac Consumer Bank and the Investment Portfolio Group. IndyMac Mortgage Bank provides consumers with mortgage products through relationships with the Company's business customers — mortgage brokers, mortgage bankers, financial institutions, real estate professionals and homebuilders. IndyMac Consumer Bank provides the platform for the mortgage and deposit services that IndyMac offers directly to consumers. Loans produced by IndyMac Mortgage Bank and IndyMac Consumer Bank are then securitized through the issuance of mortgage-backed securities, sold to government-sponsored enterprises, resold in bulk whole loan sales to investors, or transferred to and retained by our Investment Portfolio Group. The Investment Portfolio Group serves as the main link to customers whose mortgages we service. Through its investments in single-family residential mortgages, mortgage-backed securities and mortgage servicing rights, the Investment Portfolio Group serves a critical support function for IndyMac's mortgage lending operations.

Prior to 2003, we managed our business through only two operating segments: Mortgage Banking and Investment Portfolio. Previously, our consumer mortgage loan production business units were included with Mortgage Banking, and our consumer banking operations were included as overhead to the Company, or "Other." Segment information for 2002 and 2001, including a change in the allocation method of interest expense to the operating segments, has been adjusted to conform to the current method of segment disclosure.

The profitability of each operating segment is measured on a fully-leveraged basis after allocating capital based on regulatory capital rules. The Company uses a match-funded transfer pricing system to allocate net interest income to the operating segments. Each operating segment is allocated funding with maturities and interest rates matched with the expected lives, repricing frequencies and financing liquidities of the segment's assets. Deposits receive a funding credit using a similar methodology. The difference between these allocations and the Company's actual net interest income and capital levels resulting from centralized management of funding costs is reported in Other. Also included in Other are unallocated corporate costs such as corporate salaries and related expenses, excess capital, and non-recurring corporate items.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Segment information for the years ended December 31, 2003, 2002, and 2001 was as follows:

	<u>Mortgage Banking</u>	<u>Consumer Banking</u>	<u>Investment Portfolio</u> (In thousands)	<u>Other</u>	<u>Consolidated</u>
<b>2003</b>					
Net interest income (expense) .....	\$ 186,066	\$ 51,305	\$ 110,809	\$(37,243)	\$ 310,937
Net revenues (expense) .....	519,217	174,504	100,614	(86,196)	708,139
Net earnings (loss) .....	202,390	48,264	34,557	(113,908)	171,303
Assets as of December 31, 2003 .....	\$3,784,219	\$1,110,292	\$8,118,153	\$227,727	\$13,240,391
<b>2002</b>					
Net interest income (expense) .....	\$ 154,971	\$ 34,916	\$ 70,877	\$(51,476)	\$ 209,288
Net revenues (expense) .....	435,586	119,973	98,585	(78,838)	575,306
Net earnings (loss) .....	172,118	28,246	36,994	(93,965)	143,393
Assets as of December 31, 2002 .....	\$3,434,576	\$ 862,596	\$4,945,188	\$332,094	\$ 9,574,454
<b>2001</b>					
Net interest income (expense) .....	\$ 126,230	\$ 15,595	\$ 91,516	\$(30,719)	\$ 202,622
Net revenues (expense) .....	355,796	63,971	109,087	(30,714)	498,140
Earnings (loss) before cumulative effect of a change in accounting principle .....	129,813	202	44,893	(48,335)	126,573
Cumulative effect of a change in accounting principle .....	21	—	(10,206)	—	(10,185)
Net earnings (loss) .....	129,834	202	34,687	(48,335)	116,388
Assets as of December 31, 2001 .....	\$3,600,253	\$ 312,757	\$3,509,937	\$ 74,364	\$ 7,497,311

**NOTE 3 — MORTGAGE-BACKED AND U.S. TREASURY SECURITIES**

As of December 31, 2003 and 2002, our mortgage-backed and U.S. Treasury securities were comprised of the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(In thousands)	
<b>Mortgage-backed, U.S. Treasury securities and notes — Trading</b>		
AAA-rated and agency interest-only strips .....	\$ 146,179	\$ 187,060
AAA-rated principal-only securities .....	8,518	79,554
AAA-rated agency securities .....	—	25,055
AAA-rated non-agency securities .....	—	101,185
U.S. Treasury securities .....	—	282,219
Other investment-grade securities .....	8,922	9,114
Other non-investment grade securities .....	1,760	2,956
Non-investment grade residual securities .....	58,253	78,740
Total mortgage-backed, U.S. Treasury securities and notes — Trading .....	<u>\$ 223,632</u>	<u>\$ 765,883</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	December 31,	
	2003	2002
	(In thousands)	
<b>Mortgage-backed securities — Available for sale</b>		
AAA-rated agency securities .....	\$ 25,193	\$ 123,269
AAA-rated non-agency securities .....	1,407,984	1,406,321
AAA-rated agency notes .....	143,689	—
Other investment grade securities .....	26,926	39,258
Other non-investment grade securities .....	10,182	4,362
Total mortgage-backed securities — Available for sale .....	<u>\$1,613,974</u>	<u>\$1,573,210</u>

Contractual maturities of the mortgage-backed and U.S. Treasury securities generally range from 10 to 30 years. Expected weighted average lives of these securities generally range from several months to five years due to borrower prepayments occurring prior to the contractual maturity.

The following table summarizes the amortized cost and estimated fair value of mortgage-backed securities classified as available for sale:

	December 31,	
	2003	2002
	(In thousands)	
Amortized cost .....	\$1,622,906	\$1,573,193
Gross unrealized holding gains .....	5,714	6,253
Gross unrealized holding losses .....	(14,646)	(6,236)
Estimated fair value .....	<u>\$1,613,974</u>	<u>\$1,573,210</u>

We value AAA-rated and agency interest-only securities using an option-adjusted spread (“OAS”) methodology, in which discount rates and future cash flows vary over time with the level of rates implied by each of 200 randomly-generated forward interest rate paths. When available, market information is used to validate these assumptions. The prepayment rates used to value our AAA-rated and agency interest-only securities portfolio are based primarily on four-factor prepayment models which incorporate relative weighted average coupon (“WAC”), seasoning, burnout, and seasonality, as well as expectations of future rates implied by the forward LIBOR/swap curve. At December 31, 2003, the weighted average constant lifetime prepayment rate assumption was 17.2%, and the implied yield was 9.8%. The actual constant prepayment rate was 34.0% for the three months ended December 31, 2003.

The fair value of our residual securities is determined by discounting estimated net future cash flows, using discount rates that approximate current market rates and expected prepayment rates. Estimated net future cash flows include assumptions related to expected credit losses on these securities. We maintain a model that evaluates the default rate and severity of loss on the residual securities’ collateral, considering such factors as loss experience, delinquencies, loan-to-value ratio, borrower credit scores and property type. The following table details the assumptions used in valuing the residual securities as of December 31, 2003 and 2002:

	December 31,			
	2003		2002	
	Prime	Subprime	Prime	Subprime
Weighted average discount rate .....	15.8%	23.6%	15.2%	27.1%
Projected prepayment rate .....	26.3%	33.4%	18.9%	32.1%
Remaining cumulative losses .....	0.5%	2.3%	0.7%	2.8%



# **INDYMAC BANCORP, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The fair value of all of our other investment and non-investment grade mortgage-backed and U.S. Treasury securities is estimated based on discounted cash flow techniques using assumptions for prepayment rates, market yield requirements and credit losses, and market information when available.

Effective January 2001, we adopted the provisions of Emerging Issues Task Force 99-20, "Recognition of Interest Income and Impairment on Certain Investments" ("EITF 99-20"). EITF 99-20 provides guidance on how transferors that retain an interest in a securitization transaction, and companies that purchase a beneficial interest in such a transaction, should account for interest income and impairment. EITF 99-20 concluded that the holder of a beneficial interest should recognize interest income over the life of the investment based on an anticipated yield determined by periodically estimating cash flows. Interest income is to be revised prospectively for changes in cash flows. If the fair value of the beneficial interest has declined below its amortized cost and the decline is other than temporary, EITF 99-20 states that an entity should apply impairment of securities guidance using the fair value method. This method differs significantly from the previous accounting method under which impairment was measured using a risk-free rate of return.

The adoption of EITF 99-20 in January of 2001 was recorded as a cumulative effect of a change in accounting principle and had the following effects on net earnings and OCI during the first quarter of 2001:

	Adjustments		
	After-tax Earnings	Other Comprehensive Income	Net Equity Impact
	(In thousands)		
<b>Core operations:</b>			
Investment grade securities .....	\$ (297)	\$ 297	\$ —
Other non-investment grade securities .....	(459)	459	—
Residual securities .....	(607)	607	—
Total core operations .....	(1,363)	1,363	—
<b>Non-core operations:</b>			
Manufactured housing securities:			
Other non-investment grade securities .....	(6,612)	4,867	(1,745)
Residual securities .....	(2,231)	1,889	(342)
Total non-core operations .....	(8,843)	6,756	(2,087)
Cumulative effect of a change in accounting principle — EITF 99-20	(10,206)	8,119	(2,087)
Cumulative effect of a change in accounting principle — SFAS 133 (See Note 14) .....	21	—	21
Total cumulative effect of a change in accounting principle .....	<u>\$(10,185)</u>	<u>\$8,119</u>	<u>\$(2,066)</u>

In addition, as a result of our periodic reviews for impairment in accordance with EITF 99-20, during the year ended December 31, 2003, we recorded \$2.3 million in impairment charges on available for sale securities.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 4 — LOANS RECEIVABLE**

A summary of loans receivable follows:

	December 31,	
	2003	2002
	(In thousands)	
Principal balance of mortgage loans held for sale .....	\$2,500,504	\$2,165,662
Adjustments:		
Unamortized premiums and fees .....	37,525	22,172
Hedge effects and other valuation adjustments .....	35,219	39,849
Total mortgage loans held for sale .....	<u>\$2,573,248</u>	<u>\$2,227,683</u>
Principal balance of mortgage loans held for investment .....	\$5,671,956	\$2,495,718
Adjustments:		
Unamortized premium and fees .....	111,021	44,134
Allowance for loan losses .....	(30,206)	(25,055)
Total mortgage loans held for investment .....	<u>\$5,752,771</u>	<u>\$2,514,797</u>
Outstanding commitments on construction and income property loans ..	\$1,666,158	\$1,424,057
Adjustments:		
Unamortized net deferred loan fees .....	50	(2,261)
Allowance for loan losses .....	(22,439)	(25,706)
Total construction and income property loans .....	<u>1,643,769</u>	<u>1,396,090</u>
Total loans receivable .....	<u>\$9,969,788</u>	<u>\$6,138,570</u>

The overall adequacy of the allowance for loan losses is based on the allowance in its entirety. The allocation amongst the various loan products is representative of our judgments and assumptions at a specific point in time and may be reallocated in the future based on changes in performance and other circumstances.

Substantially all of the mortgage loans that we acquired are non-conforming loans secured by first liens on single-family residential properties. Approximately 61% of the principal amount of mortgage loans receivable at December 31, 2003 was collateralized by properties located in California.

Our impaired loans by collateral type consist of the following:

	December 31,	
	2003	2002
	(In thousands)	
Builder construction loans .....	\$ 9,704	\$ 9,275
Consumer construction loans .....	8,953	10,257
Specific reserves .....	(2,161)	(4,168)
Total impaired loans .....	<u>\$16,496</u>	<u>\$15,364</u>
Average balance during the year .....	<u>\$18,420</u>	<u>\$24,658</u>

If interest on impaired construction loans had been recognized, such income, net of recoveries, would have been \$1.4 million and \$3.7 million during the years ended December 31, 2003 and 2002, respectively. Interest income of \$0.5 million and \$0.7 million was recognized on a cash basis on impaired construction loans for the years ended December 31, 2003 and 2002, respectively.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 5 — ALLOWANCE FOR LOAN LOSSES**

Our determination of the level of the allowance for loan losses and, correspondingly, the provision for loan losses, is based upon judgments and assumptions about various matters, including general economic conditions, loan portfolio composition, prior loan loss experience, delinquency trends and our ongoing examination process. The allowance for loan losses of \$52.6 million is considered adequate to cover losses inherent in the loan portfolio at December 31, 2003. However, no assurance can be given that we will not, in any particular period, sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing examination process, will not require significant changes in the allowance for loan losses.

The table below summarizes the changes to the allowance for loan losses for the years ended:

	December 31,		
	2003	2002	2001
	(In thousands)		
<b>Core portfolio loans:</b>			
Balance, beginning of period .....	\$41,314	\$ 41,770	\$ 43,350
Provision for loan losses .....	12,875	9,807	5,985
Charge-offs net of recoveries			
SFR mortgage loans .....	(3,888)	(5,783)	(3,073)
Land and other mortgage loans .....	(11)	(1,658)	—
Builder construction .....	(3,268)	(2,584)	(3,879)
Consumer construction .....	(1,378)	(238)	(613)
Charge-offs net of recoveries .....	(8,545)	(10,263)	(7,565)
Balance, end of period .....	45,644	41,314	41,770
<b>Discontinued product lines:</b>			
Balance, beginning of period .....	9,447	15,930	15,612
Provision for loan losses .....	6,825	6,348	16,037
Charge-offs net of recoveries .....	(9,271)	(12,831)	(15,719)
Balance, end of period .....	7,001	9,447	15,930
Total allowance for loan losses .....	<u>\$52,645</u>	<u>\$ 50,761</u>	<u>\$ 57,700</u>

**NOTE 6 — MORTGAGE SERVICING RIGHTS**

The carrying value of our capitalized MSR's was \$443.7 million and \$300.5 million at December 31, 2003 and 2002, respectively. During 2003 and 2002, IndyMac modified its agreement with one of the government sponsored enterprises ("GSEs") resulting in the bifurcation of the fee the Company retains to service loans sold to the GSE. Previously, the entire contractual servicing fee was capitalized on the consolidated balance sheet as MSR's. Under the new agreement, the contractual servicing fee is separated into a reduced servicing fee of 25 basis points (the base servicing fee) and an excess yield strip for amounts above the base servicing fee. The base servicing fee continues to be capitalized as MSR's, while the excess yield strip is now included in trading securities and accounted for similar to the AAA-rated interest-only securities. While the amount of the total servicing fees and related cash flow expected to be derived from servicing the loans were not impacted by the modification, the change in consolidated balance sheet classification will result in two primary benefits. First, the excess yield strip will be marked-to-market through the income statement and will no longer be



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

subject to the lower of cost or market limitations applicable to MSRs. This will directly align the hedge accounting treatment for the asset with actual economic hedging results. Second, the excess yield strip is now risk weighted at 100% for regulatory capital purposes instead of the higher requirement for MSRs. During 2003 and 2002, IndyMac reclassified \$47.3 million and \$75.4 million, respectively, of capitalized MSRs to trading securities pursuant to this agreement.

The assumptions used to value MSRs at December 31, 2003 and 2002 follow:

	Actual					Valuation Assumptions		
	Book Value	Collateral Balance	Gross WAC	Servicing Fee	3-month Prepayment Speed	Wtd. Avg. Multiple	Remaining Lifetime Prepayment Speeds (CPR)	Discount Yield
	(Dollars in thousands)							
December 31, 2003 . . .	\$443,688	\$30,773,545	6.53%	0.32%	31.0%	4.51	16.8%	10.0%
December 31, 2002 . . .	\$300,539	\$28,375,897	7.56%	0.33%	40.7%	3.21	22.0%	9.5%

The changes in MSRs are as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Balance at beginning of period . . . . .	\$300,539	\$ 321,316	\$211,127
Additions . . . . .	291,849	230,894	229,825
Conversion of MSRs to interest-only strips . . . . .	(47,311)	(75,371)	—
Clean-up calls exercised . . . . .	(10,256)	(685)	—
Scheduled amortization . . . . .	(85,590)	(68,228)	(68,716)
Valuation/impairment . . . . .	(5,543)	(107,387)	(50,920)
Balance at end of period . . . . .	<u>\$443,688</u>	<u>\$ 300,539</u>	<u>\$321,316</u>

Changes in the valuation allowance for impairment of MSRs are as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Balance at beginning of period . . . . .	\$(179,586)	\$ (72,440)	\$(21,948)
Provision for valuation . . . . .	(5,543)	(107,387)	(50,920)
Clean-up calls exercised . . . . .	10,107	—	—
Permanent impairment . . . . .	115,315	—	—
Other . . . . .	178	241	428
Balance at end of period . . . . .	<u>\$ (59,529)</u>	<u>\$(179,586)</u>	<u>\$(72,440)</u>

**NOTE 7 — INVESTMENT IN FEDERAL HOME LOAN BANK STOCK**

The investment in Federal Home Loan Bank stock consisted of capital stock, at cost, totaling \$313.3 million and \$155.4 million as of December 31, 2003 and 2002, respectively. Total dividend income recognized was \$9.6 million, \$6.3 million and \$4.8 million, respectively, in 2003, 2002 and 2001. We earned a yield of 4.2% and 5.7% in 2003 and 2002, respectively. The investment in Federal Home Loan Bank stock is required to permit IndyMac Bank to borrow from the Federal Home Loan Bank of San Francisco.



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### NOTE 8 — OTHER ASSETS

The major components of other assets are as follows:

	December 31,	
	2003	2002
	(In thousands)	
Fixed assets and software development .....	\$140,421	\$ 65,425
Hedging related deposits .....	17,457	67,065
Accounts receivable .....	68,991	47,311
Derivative financial instruments at fair value .....	138,959	77,325
Servicing related advances .....	38,016	37,997
Investment in non-consolidated subsidiary .....	7,802	—
Other .....	39,762	30,802
Total other assets .....	<u>\$451,408</u>	<u>\$325,925</u>

The increase in fixed assets and software development was primarily due to the purchase, in December of 2003, of an office building located in Pasadena, California in which we previously leased space for our mortgage banking headquarters. Hedging related deposits represent margin deposits with our clearing agent or counterparties associated with our hedge positions. For further information on our derivative financial instruments, see "Footnote 14 — Derivative Instruments."

Software development and fixed assets included in other assets are detailed below:

	December 31,	
	2003	2002
	(In thousands)	
Software development .....	\$ 56,234	\$39,471
Accumulated amortization .....	(26,410)	(15,014)
Net software development .....	29,824	24,457
Data processing equipment .....	50,701	35,245
Furniture and equipment .....	28,241	19,916
Leasehold improvements .....	9,919	5,023
Land and buildings .....	55,006	7,541
Subtotal .....	143,867	67,725
Accumulated depreciation .....	(45,099)	(28,904)
Land .....	11,829	2,147
Total software development and fixed assets .....	<u>\$140,421</u>	<u>\$65,425</u>

Software development consists primarily of our internal loan approval and pricing system, e-MITS® (Electronic Mortgage Information and Transaction System), software for our banking system (including Internet banking), loan origination and processing systems, and other purchased and internally-developed software.

Depreciation and amortization expense was \$27.6 million, \$19.5 million, and \$15.1 million, for the years 2003, 2002, and 2001, respectively.



INDYMAC BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9 — DEPOSITS

A summary of the carrying value of deposits, rates, and maturities of certificates of deposit follows:

	December 31,			
	2003		2002	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Non interest-bearing checking .....	\$ 44,353	0.0%	\$ 38,426	0.0%
Non interest-bearing checking — Loan servicing accounts .....	528,643	0.0%	497,466	0.0%
Interest-bearing checking .....	39,761	0.9%	37,867	0.9%
Savings .....	1,515,852	1.8%	635,607	2.3%
Total core deposits .....	2,128,609	1.3%	1,209,366	1.2%
Certificates of deposit, due:				
Within one year .....	1,642,592	2.4%	1,324,980	3.5%
One to two years .....	457,229	3.4%	344,675	4.2%
Two to three years .....	102,275	4.6%	174,024	5.2%
Three to four years .....	17,412	3.8%	76,694	5.1%
Four to five years .....	2,656	3.0%	10,468	4.2%
Over five years .....	—	—	295	4.2%
Total certificates of deposit .....	2,222,164	2.7%	1,931,136	3.8%
Total deposits .....	<u>\$4,350,773</u>	2.0%	<u>\$3,140,502</u>	2.8%

The interest expense by deposit type for the years ended December 31, 2003, 2002 and 2001 are summarized as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Interest-bearing checking .....	\$ 350	\$ 435	\$ 467
Savings .....	24,623	13,313	10,775
Certificates of deposit .....	62,855	91,440	87,539
Total interest expense on deposits .....	<u>\$87,828</u>	<u>\$105,188</u>	<u>\$98,781</u>

The following table summarizes certificates of deposit in amounts of \$100,000 or more by maturity:

	December 31,	
	2003	2002
	(In thousands)	
Three months or less .....	\$109,813	\$167,258
Three to six months .....	200,091	131,769
Six to twelve months .....	306,067	240,787
Over twelve months .....	237,634	244,395
Total certificates of deposit $\geq$ \$100,000 .....	<u>\$853,605</u>	<u>\$784,209</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 10 — ADVANCES FROM THE FHLB**

As a member of the FHLB, we maintain a credit line that is based largely on a percentage of total regulatory assets. Advances totaled \$4.9 billion at December 31, 2003 and \$2.7 billion at December 31, 2002, and are collateralized in the aggregate by loans, securities, all FHLB stock owned and by deposits with the FHLB. The maximum amount of credit that the FHLB will extend for purposes other than meeting withdrawals varies from time to time in accordance with its policies. The interest rates charged by the FHLB for advances typically vary depending upon maturity, the cost of funds of the FHLB, and the collateral for the borrowing.

Scheduled maturities of advances from the FHLB were as follows:

	December 31, 2003		December 31, 2002	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Within one year .....	\$3,679,911	1.6%	\$1,592,918	2.7%
One to two years .....	610,000	2.4%	443,865	5.3%
Two to three years .....	375,000	3.1%	200,000	3.4%
Three to four years .....	190,000	3.8%	215,000	3.4%
Four to five years .....	80,000	3.6%	190,000	3.8%
Over five years .....	—	—	80,000	3.6%
Total .....	<u>\$4,934,911</u>	1.9%	<u>\$2,721,783</u>	3.4%

Financial data pertaining to advances from the FHLB were as follows:

	Rate/Amount December 31,	
	2003	2002
	(Dollars in thousands)	
Weighted average coupon rate, end of year .....	1.9%	3.4%
Weighted average rate during the year, including hedge effect .....	3.0%	4.9%
Average balance of advances from FHLB .....	\$3,820,076	\$2,092,972
Maximum amount of advances from FHLB at any month end .....	\$5,144,907	\$2,777,273
Interest expense for the year .....	\$ 113,032	\$ 101,647

Included in the portfolio of advances from the FHLB as of December 31, 2003 were \$200 million of advances subject to call features, which are at the Company's discretion, and no advances subject to put options. As of December 31, 2002, the portfolio of advances included \$15 million of advances subject to put options and no advances subject to call features.

We had \$667 million and \$413 million of unused committed financing from the FHLB at December 31, 2003 and 2002, respectively.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 11 — OTHER BORROWINGS**

Other borrowings of the Company consisted of the following:

	December 31,	
	2003	2002
	(In thousands)	
Loans and securities sold under agreements to repurchase .....	\$2,438,059	\$2,401,554
Trust preferred debentures .....	183,643	116,819
Revolving syndicated bank credit facilities .....	185	69,185
Collateralized mortgage obligations .....	207	20,976
	<u>\$2,622,094</u>	<u>\$2,608,534</u>

***Loans and Securities Sold Under Agreements to Repurchase***

We sold, under agreements to repurchase, securities of the U.S. government and its agencies, specific loans and other approved investments to various broker-dealers pursuant to committed and uncommitted credit facilities totaling \$2.8 billion at December 31, 2003. The amounts outstanding under these repurchase agreements were \$2.4 billion at December 31, 2003 and 2002. Our outstanding repurchase agreements have an average maturity of less than 30 days.

These repurchase agreements generally reprice on an overnight-to-one-month basis for loans, and a one-to-three-month basis for securities, bearing interest at rates indexed to LIBOR or the federal funds rate, plus an applicable margin. For the years ended December 31, 2003 and 2002, the weighted average borrowing rate on repurchase agreements was 2.0% and 2.9%, respectively. We were in compliance with all material representations, warranties and financial covenants under these repurchase agreements at December 31, 2003 and 2002.

***Trust Preferred Debentures, Securities and Warrants***

On November 14, 2001, we completed an offering of Warrants and Income Redeemable Equity Securities ("WIRES") to investors. Gross proceeds of the transaction were \$175 million. The securities were offered as units consisting of a trust preferred security, issued by a trust formed by us, and a warrant to purchase IndyMac Bancorp's common stock. The proceeds from the offering are intended to be used in ongoing operations and fund future growth and/or repurchases of IndyMac Bancorp stock under its share repurchase program. In each of the months of July and December 2003, we issued an additional \$30 million of trust preferred securities, yielding 6.16% and 6.45%, respectively. The proceeds of these securities will also be used in operations. These securities did not contain any warrants on IndyMac Bancorp common stock.

Upon the adoption of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51*, on July 1, 2003, the trusts have been deconsolidated from the consolidated financial statements of the Company. Our investment in these non-consolidated trusts totaled \$7.8 million at December 31, 2003 and is included in other assets. Trust preferred debentures, representing the liabilities due from IndyMac Bancorp to IndyMac Capital Trusts, amounted to \$183.6 million and \$116.9 million at December 31, 2003 and 2002, respectively. The increase in this balance is primarily due to the issuance of \$60 million of trust preferred securities during the second half of 2003.



# **INDYMAC BANCORP, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

### *Revolving Syndicated Bank Credit Facilities*

In July of 2002, we renewed a committed credit facility in the aggregate amount of \$100 million with Bank of America, which matures in February of 2005. This credit facility will continue to finance single-family residential mortgage loans, construction-to-permanent loans, lot loans, builder tract loans and MSRs. The Bank's \$400 million credit facility with Bank of America matured on December 31, 2002, and we elected not to renew this facility.

Interest rates are based on LIBOR or the federal funds rate plus an applicable margin, which may vary by the type of collateral. The applicable margin and a facility fee are determined based on our investment rating. For the years ended December 31, 2003 and 2002, the weighted average borrowing rate under these facilities was 2.1% and 3.8%, respectively. The amount of borrowing outstanding under these facilities at December 31, 2003 and 2002 was \$0.2 million and \$69.2 million, respectively. At December 31, 2003 and 2002, we were in compliance with all representations, warranties and financial covenants under these revolving credit facilities.

### *Collateralized Mortgage Obligations*

Collateralized mortgage obligations ("CMOs") are secured by a pledge of mortgage loans, mortgage-backed securities and residual cash flows from such securities. As required by the indentures relating to the CMOs, the pledged collateral is held in the custody of trustees. The trustees collect principal and interest payments on the underlying collateral, reinvest such amount in the GICs, and make corresponding principal and interest payments on the CMOs to the bondholders. Our net equity investments in CMOs amounted to \$152,000 and \$2.4 million at December 31, 2003 and 2002, respectively. The weighted average coupon on CMOs was 11.5% and 7.0% at December 31, 2003 and 2002, respectively.

### *Commitment Fees*

At December 31, 2003 and 2002, we had deferred commitment fees totaling \$1.7 million and \$1.3 million, respectively, net of accumulated amortization of \$2.5 million and \$4.8 million, respectively. We amortize these fees over the contractual life of the borrowings.

### *Pledged Borrowings*

We pledged certain of our loans and securities for our borrowings, which mainly consist of advances from FHLB and loans and securities sold under agreements to repurchase. The following table provides information related to such pledged assets as of December 31, 2003 and 2002.

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(In millions)</u>	
Loans pledged for FHLB .....	\$5,579	\$2,519
Securities pledged for FHLB .....	362	610
Loans pledged for repurchase agreements .....	1,726	1,669
Securities pledged for repurchase agreements .....	1,238	1,446
Loans pledged for other .....	<u>317</u>	<u>122</u>
Total pledged .....	<u>\$9,222</u>	<u>\$6,366</u>



# **INDYMAC BANCORP, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

As of December 31, 2003, pledged assets exceeded our borrowings by approximately \$1.8 billion. The excess collateral was held by a trustee and pledged to our lenders. The following table details the amounts allocated amongst the various lenders.

	December 31,	
	2003	2002
	(In millions)	
Merrill Lynch .....	\$ 235	\$ 411
Morgan Stanley .....	121	109
UBS Warburg .....	159	163
FHLB .....	1,006	407
Bank of America .....	115	52
Federal Reserve .....	202	—
Other .....	7	29
Total excess .....	<u>\$1,845</u>	<u>\$1,171</u>

### *Debt Covenants*

The Company is subject to various debt covenants as a condition of its borrowing facilities. As of December 31, 2003, in addition to the standard covenants of timely repayments of interest and principal, the key debt covenants include maintaining minimum well-capitalized capital ratios (5%, 6%, and 10% for core capital, Tier 1 risk-based and total risk-based capital, respectively), no less than "B" rating on the corporate bond by Standard & Poor's or Fitch, minimum net worth of \$500 million for the Bank and \$300 million for the Parent Company, and minimum reserve to annualized charge-offs ratio of 2%. As of December 31, 2003, we believe we were in compliance with all representations, warranties and financial covenants under our borrowing facilities.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.— (Continued)**

**NOTE 12 — PARENT COMPANY FINANCIAL STATEMENTS**

The following tables present IndyMac Bancorp financial information:

**Condensed Balance Sheets**

	December 31,	
	2003	2002
	(Dollars in thousands)	
<b>Assets</b>		
Cash .....	\$ 109,710	\$ 30,479
Loans held for investment, net .....	5,819	15,057
Securities classified as trading .....	17,148	35,159
Securities classified as available for sale .....	2,016	—
Investment in and advances to subsidiaries .....	1,053,323	874,407
Foreclosed assets .....	950	17,579
Intercompany receivables .....	5,679	1,305
Other assets .....	17,543	4,047
Total assets .....	<u>\$1,212,188</u>	<u>\$978,033</u>
<b>Liabilities and Shareholders' Equity</b>		
Trust preferred securities .....	\$ 183,643	\$124,508
Borrowings .....	692	—
Other liabilities .....	10,422	3,560
Shareholders' equity .....	<u>1,017,431</u>	<u>849,965</u>
Total liabilities and shareholders' equity .....	<u>\$1,212,188</u>	<u>\$978,033</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Condensed Statements of Earnings**

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
<b>Interest income</b>			
Loans .....	\$ 1,197	\$ 2,520	\$ 588
Securities available for sale and trading .....	5,069	7,539	3,275
Intercompany notes .....	—	169	3,287
Other .....	1,065	2,174	615
Total interest income .....	7,331	12,402	7,765
<b>Interest expense</b>			
Trust preferred securities .....	12,221	11,581	1,419
Other .....	894	443	75
Total interest expense .....	13,115	12,024	1,494
Net interest (loss) income .....	(5,784)	378	6,271
<b>Provision for loan losses</b> .....	890	1,503	309
Net interest (loss) income after provision for loan losses	(6,674)	(1,125)	5,962
<b>Other income</b>			
Equity in earnings of subsidiaries .....	179,878	143,639	119,195
Gain (loss) on securities, net .....	5,760	7,357	(9,789)
Other income, net .....	18	24	28
Total other income .....	185,656	151,020	109,434
Net revenues .....	178,982	149,895	115,396
<b>Expenses</b> .....	13,147	6,725	241
Earnings before provision for income tax .....	165,835	143,170	115,155
Income tax benefit .....	(5,468)	(223)	(1,679)
<b>Net earnings</b> .....	<u>\$171,303</u>	<u>\$143,393</u>	<u>\$116,834</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Condensed Statements of Cash Flows**

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
<b>Cash flows from operating activities:</b>			
Net earnings .....	\$ 171,303	\$ 143,393	\$ 116,834
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Accretion net of amortization .....	(1,306)	(5,595)	(1,815)
(Gain) loss on securities .....	(5,760)	(5,566)	9,789
Provision for loan losses .....	889	1,503	309
Equity in earnings of subsidiaries .....	(179,878)	(143,639)	(119,195)
(Sale of) and payments from mortgage and other loans held for sale .....	(3,104)	1,427	—
Net decrease (increase) in other assets and liabilities ..	39,154	(23,415)	21,349
Net cash provided by (used in) operating activities ..	21,298	(31,892)	27,271
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in loans held for investment ..	8,207	7,882	(5,181)
Purchases of securities available for sale .....	—	(5,021)	(42,217)
Sales of and payments from securities available for sale ..	312	6,357	10,486
Increase in investment in and advances to subsidiaries, net of cash payments .....	(12,114)	(2,472)	(108,791)
Net decrease in note receivable from IndyMac Bank ..	—	27,266	151,274
Net cash (used in) provided by investing activities ..	(3,595)	34,012	5,571
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of trust preferred securities ..	58,962	—	116,287
Issuance of warrants .....	—	—	52,277
Net proceeds from issuance of common stock and exercise of stock options .....	33,635	11,294	24,346
Cash dividends paid .....	(30,602)	—	—
Purchases of common stock .....	(467)	(131,543)	(78,775)
Net cash provided by (used in) financing activities ..	61,528	(120,249)	114,135
Net increase (decrease) in cash and cash equivalents ....	79,231	(118,129)	146,977
Cash at beginning of period .....	30,479	148,608	1,631
Cash at end of period .....	\$ 109,710	\$ 30,479	\$ 148,608

**NOTE 13 — TRANSFERS AND SERVICING OF FINANCIAL ASSETS**

*Retained Assets*

In conjunction with our loan sale activities, we retain certain assets from private-label securitizations and loan sales to GSEs. The primary assets retained include MSRs and, to a much lesser degree, AAA-rated interest-only securities, non-investment grade securities, and non-investment grade residual securities. The allocated cost of the retained assets at the time of the sale is recorded as a component of the gain on sale of



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

loans. We recognized a total of \$387.3 million and \$300.8 million in gain on sale of loans during the years ended December 31, 2003 and 2002, respectively. The fair value of retained assets totaling \$385.5 million and \$361.8 million in 2003 and 2002, respectively, is included as a component of these gains.

The key assumptions used in measuring the fair value of retained assets at the time of securitization during the year ended December 31, 2003 on a weighted average basis were as follows:

	Retained Balance	Lifetime CPR	Discount Yield	Projected Loss Rate
	(Dollars in thousands)			
Mortgage servicing rights .....	\$289,119	14.00%	12.20%	N/A
AAA-rated interest-only securities .....	47,791	23.75%	10.58%	N/A
AAA-rated principal-only securities .....	6,493	6.45%	7.09%	N/A
Investment grade mortgage-backed securities .....	14,833	32.68%	6.37%	2.01%
Non-investment grade mortgage-backed securities .....	3,739	40.00%	9.30%	0.23%
Non-investment grade residual securities .....	23,526	27.64%	16.64%	1.32%
Total .....	<u>\$385,501</u>			

The following table shows the hypothetical effect on the fair value of our retained assets using various unfavorable variations of the expected levels of certain key assumptions used in valuing these assets at December 31, 2003.

	Mortgage Servicing	AAA-rated Interest- Only	AAA-rated Principal- Only	Investment Grade Mortgage- Backed Securities	Non-investment Grade Mortgage- Backed Securities	Residual Securities	Total
	(Dollars in thousands)						
Balance sheet carrying value of retained interests .....	<u>\$443,688</u>	<u>\$139,660</u>	<u>\$8,518</u>	<u>\$35,848</u>	<u>\$11,942</u>	<u>\$58,253</u>	<u>\$697,909</u>
Prepayment speed assumption .....	16.80%	19.06%	8.30%	35.00%	21.50%	24.20%	N/A
Impact on fair value of 10% adverse change of prepayment speed .....	\$ 28,791	\$ 9,891	\$ 213	\$ 1,113	\$ 827	\$ 3,272	\$ 44,107
Impact on fair value of 20% adverse change of prepayment speed .....	\$ 37,699	\$ 18,684	\$ 444	\$ 3,179	\$ 2,056	\$ 6,790	\$ 68,852
Discount rate assumption ...	10.00%	9.80%	6.00%	6.30%	17.70%	17.50%	N/A
Impact on fair value of 100 basis point adverse change	\$ 17,853	\$ 4,521	\$ 430	\$ 2,090	\$ 888	\$ 1,291	\$ 27,073
Impact on fair value of 200 basis point adverse change	\$ 34,259	\$ 8,961	\$ 822	\$ 4,736	\$ 2,243	\$ 2,453	\$ 53,474
Net credit loss assumption ..	N/A	N/A	N/A	4.30%	2.80%	2.50%	N/A
Impact on fair value of 10% adverse change in credit losses .....	N/A	N/A	N/A	\$ 2,265	\$ 2,090	\$ 5,195	\$ 9,550
Impact on fair value of 20% adverse change in credit losses .....	N/A	N/A	N/A	\$ 4,884	\$ 4,097	\$ 9,233	\$ 18,214



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a ten percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption, or considering the offsetting hedging impacts. In reality, changes in one factor may result in changes in another, such as hedging strategies and associated gains or losses, which might magnify or counteract the sensitivities.

### *Credit Risk on Securitizations*

With regard to the issuance of private-label securitizations, we retain certain limited credit exposure in that we may choose to retain non-investment grade securities and residuals. These securities are subordinate to investors' investment-grade interests, which have rights to reimbursement of certain losses. We do not have credit exposure associated with non-performing loans in securitizations beyond our investment in retained interests in non-investment grade securities and residuals. The value of our retained interests include credit loss assumptions on the underlying collateral pool to mitigate this risk. The following table summarizes the collateral balance associated with our servicing portfolio of sold loans, and the balance of non-investment grade securities and residual securities retained at December 31, 2003.

	Total Loans Served	Balance of Retained Assets With Credit Exposure	
		Non-investment Grade Securities	Residuals
		(In thousands)	
<b>Prime</b>			
IndyMac securitizations .....	\$ 7,598,546	\$ 9,099	\$25,614
GSEs .....	18,380,371	—	—
Whole loan sales .....	1,767,433	—	—
<b>Subprime</b>			
IndyMac securitizations .....	1,256,883	1,083	32,639
Whole loan sales .....	309,491	—	—
<b>Manufactured housing securitization</b> .....	<u>187,981</u>	<u>1,760</u>	<u>—</u>
<b>Total</b> .....	<u>\$29,500,705</u>	<u>\$11,942</u>	<u>\$58,253</u>

As part of the normal course of business involving loans sold to the secondary market, we are occasionally required to repurchase loans or make certain payments to settle breaches of our standard representations and warranties made as part of the loan sales or securitizations. In anticipation of future probable losses related to these loans, we have established a secondary market reserve and have recorded \$26.7 million and \$18.7 million provisions to this reserve as reductions to our gain on sale of loans during 2003 and 2002, respectively. The balance in this reserve was \$34.0 million and \$37.6 million at December 31, 2003 and 2002, respectively, which is included on the consolidated balance sheets as a component of other liabilities. The calculation of the reserve is a function of estimated probable losses based on actual pending claims and repurchase requests, historical experience, loan volume and loan sale distribution channels.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Qualifying Special-Purpose Entities*

All loans sold in our private-label securitizations are issued through securitization trusts, which are “qualifying special-purpose entities” under SFAS 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” Cash flows received from and paid to securitization trusts during the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
Proceeds from new securitizations .....	\$ 5,276,875	\$6,179,221
Servicing fees received .....	17,347	23,398
Other cash flows received on retained interests .....	94,341	133,159
Clean-up calls .....	(1,611,841)	(124,238)
Loan repurchases for representations and warranties .....	(7,082)	(3,467)

As part of our normal servicing operations, the Company advanced cash to investors totaling \$91.4 million and \$134.7 million during the years ended December 31, 2003 and 2002, respectively, and received cash reimbursements from investors totaling \$89.7 million and \$131.5 million, respectively.

From time to time, IndyMac creates Net Interest Margin (“NIM”) trusts to further reduce our exposure to losses on residual securities. NIM trusts are created for the securitization of residual securities from prior or recently completed securitization transactions. NIM trusts issue bonds to outside investors secured by the residual securities we contribute to the trusts. The cash proceeds from the sale of the NIM bonds to investors are paid to us by the NIM trusts as payment for the residual securities. The NIM bonds are obligations of the NIM trusts and are collateralized only by the residual securities. We are not obligated to make any payments on the bonds. These entities represent qualified special-purpose entities and meet the legal isolation criteria of SFAS 140. Therefore, these entities are not consolidated for financial reporting purposes, in accordance with SFAS 140. At inception, the outside investors have the majority interest in the fair value of the residual securities. We receive cash flows from our retained interests in the NIM trusts once the bonds issued to the investors are fully paid off. We created one NIM trust during 2003 and two NIM trusts during 2002. At inception of the trusts, we retained a 13.9% and 14.5% interest in these trusts during 2003 and 2002, respectively. At December 31, 2003 and 2002, these NIM trusts held assets valued at \$46.9 million and \$66.9 million, respectively, and our retained interests in these NIM trusts were valued at \$16.0 million and \$24.5 million, respectively. Our retained interests are included as a component of securities classified as trading securities on the consolidated balance sheets.

**NOTE 14 — DERIVATIVE INSTRUMENTS**

Effective January 1, 2001, we adopted the provisions of SFAS 133 for our derivative instruments, which requires us to recognize all derivative instruments on the consolidated balance sheets at fair value. The adoption of SFAS 133 resulted in a net after tax gain of \$21,000 being recognized as a cumulative effect of a change in accounting principle and a \$2.5 million after tax reduction to OCI in shareholders’ equity in January of 2001.

The following derivative financial instruments were identified and recorded at fair value as of January 1, 2001, in accordance with adoption of SFAS 133:

- FNMA and FHLMC futures and forward contracts
- interest rate swap agreements
- interest rate swaption agreements



## INDYMAC BANCORP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- interest rate floor agreements
- interest rate cap agreements
- rate lock commitments

Generally speaking, if interest rates increase, the value of our loan commitments and funded loans decrease and loan sale margins are adversely impacted. We hedge the risk of overall changes in fair value of loans held for sale and rate lock commitments generally by selling forward contracts on securities of GSEs to economically hedge the fair value of loan commitments and the funded loan portfolio. Under SFAS 133, these forward contracts qualify as a fair value hedge of the funded loan portfolio. During the year ended December 31, 2003, hedge ineffectiveness totaling \$318,000 was recorded as an increase to gain on sale of loans, and for the year ended December 31, 2002, \$5.8 million was recorded as a decrease to gain on sale of loans. The forward contracts used to economically hedge the loan commitments are accounted for as non-designated hedges. The fair value of loan commitments is recorded as a component of gain on sale of loans. At December 31, 2003 and 2002, the fair value of these commitments amounted to \$25.0 million and \$49.9 million, respectively. As such, as of December 31, 2003, the fair value of loan commitments was recorded as an \$8.4 million increase to gain on sale of loans, and as of December 31, 2002, as a \$24.4 million increase to gain on sale of loans.

We use interest rate swap agreements to reduce our exposure to interest rate risk inherent in a portion of the repurchase agreement borrowings and FHLB advances. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts and indices. Under SFAS 133, the swap agreements used on our repurchase agreement borrowings and FHLB advances qualify as cash flow hedges. During the year ended December 31, 2003, the net loss on our interest rate swap and swaption agreements was \$3.3 million after tax, which was recorded as a component of OCI, with actual ineffectiveness of \$101,000 being recorded through earnings as a component of interest expense. During the year ended December 31, 2002, the net loss on our interest rate swap agreements was \$18.8 million after tax, which was recorded as a component of OCI, with actual ineffectiveness of \$26,000 being recorded through earnings as a component of interest expense. Future effective changes in fair value on these interest rate swap agreements will be adjusted through OCI as long as the cash flow hedge requirements are met.

Although we have not elected SFAS 133 hedge accounting on our servicing assets or trading portfolio, economic hedges such as futures, interest rate floors, caps, and swaps are used for these assets to mitigate valuation declines that result from changes and volatility in the interest rate environment. Gains and losses on these derivative financial instruments are reported as a component of service fee income for mortgage servicing assets, and as a component of gain or (loss) on mortgage-backed securities, net, for our AAA-rated and agency interest-only and principal-only securities.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We had the following derivative financial instruments as of December 31, 2003:

	<u>Notional Amounts</u>	<u>Fair Value</u>	<u>Expiration Dates</u>
	(Dollars in thousands)		
Loans held for sale:			
Rate lock commitments .....	\$ 2,148,391	\$ 24,994	2004
Forward agency and loan sales .....	1,934,194	(11,943)	2004
FNMA put options .....	115,000	79	2004
AAA-rated interest-only securities and mortgage servicing hedges:			
Interest rate caps (LIBOR/Swaps) .....	1,944,190	1,190	2004-2006
Interest rate floorridors (LIBOR/Swaps) .....	5,188,000	28,853	2006-2008
Interest rate swaps (LIBOR) .....	845,000	(2,568)	2004-2013
Interest rate swaptions (LIBOR) .....	865,000	53,855	2004-2008
	8,842,190	81,330	
Liability-repurchase agreements:			
Interest rate swaps (LIBOR) .....	2,007,000	(19,385)	2005-2009
Interest rate swaptions (LIBOR) .....	2,950,000	39,778	2004-2006
	<u>\$17,996,775</u>	<u>\$114,853</u>	

While we do not anticipate nonperformance by the counterparties, we manage credit risk with respect to such financial instruments by entering into agreements with entities (including their subsidiaries) approved by a committee of the Board of Directors and with a long term credit rating of "A" or better. Unless otherwise noted, we do not require collateral or other security to support financial instruments with approved counterparties.

**NOTE 15 — FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the estimated fair values of the various classes of financial instruments we held as of December 31, 2003 and 2002. Fair value estimates were determined for existing balance sheet and off-balance sheet financial instruments, including derivative instruments, without attempting to estimate the value of certain assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial instruments under SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," include MSRs, foreclosed assets, fixed assets, goodwill and intangible assets.

The estimated fair value amounts of our financial instruments have been determined using available market information and valuation methods that we believe are appropriate under the circumstances. These estimates are inherently subjective in nature and involve matters of significant uncertainty and judgment to interpret relevant market and other data. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Financial instruments consist of the following:

	December 31, 2003		December 31, 2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
<b>Financial Assets:</b>				
Cash and cash equivalents .....	\$ 115,485	\$ 115,485	\$ 196,720	\$ 196,720
Securities classified as trading .....	223,632	223,632	765,883	765,883
Mortgage-backed securities available for sale .....	1,613,974	1,613,974	1,573,210	1,573,210
Loans held for sale .....	2,573,248	2,573,248	2,227,683	2,228,827
Mortgage loans held for investment ....	7,396,540	7,402,298	3,910,887	3,931,158
Investment in FHLB stock .....	313,284	313,284	155,443	155,443
<b>Financial Liabilities:</b>				
Deposits .....	4,350,773	4,260,193	3,140,502	3,147,495
Advances from the FHLB .....	4,934,911	4,949,477	2,721,783	2,786,237
Other borrowings .....	2,622,094	2,634,252	2,608,534	2,628,870
<b>Derivative Financial Instruments:</b>				
Commitments to purchase and originate loans .....	24,994	24,994	49,856	49,856
Commitments to sell loans and securities .....	(11,943)	(11,943)	(39,450)	(39,450)
Interest rate swaps .....	(21,953)	(21,953)	(26,563)	(26,563)
Interest rate swaptions .....	93,633	93,633	—	—
Interest rate caps, floors, floorriders and futures .....	30,043	30,043	61,893	61,893
Put options .....	79	79	48	48

The following describes the methods and assumptions we use in estimating fair values:

*Cash and Cash Equivalents.* Carrying amount represents fair value.

*Mortgage-Backed Securities Classified as Available for Sale or Trading.* Fair value is estimated using quoted market prices or by discounting future cash flows using assumptions for prepayment rates, market yield requirements and credit losses.

*Loans Held for Sale.* The fair value of loans held for sale is derived primarily from quoted market prices for loans with similar coupons, maturities and credit quality.

*Loans Held for Investment.* Fair value is estimated using quoted market prices or by discounting future cash flows using assumptions for prepayment rates, market yield requirements and credit losses.

*Investment in FHLB Stock.* The carrying amount represents the fair value. FHLB stock does not have a readily determinable fair value, but can be sold back to the FHLB at its par value with stated notice.

*Deposits.* The fair value of time deposits and transaction accounts is determined using a cash flow analysis. The discount rate for time deposits is derived from the rate currently offered on alternate funding sources with similar maturities. The discount rate for transaction accounts is derived from a forward LIBOR curve plus a spread. Core deposit intangibles are included in the valuation.



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Advances from FHLB.* The fair value of advances from FHLB is valued using a cash flow analysis. The discount rate is derived from the rate currently offered on similar borrowings.

*Other Borrowings.* Fair values are determined by estimating future cash flows and discounting them using interest rates currently available to us on similar borrowings.

*Commitments to Purchase and Originate Loans.* Fair value is estimated based upon the difference between the current value of similar loans and the price at which we have committed to purchase or originate the loans, subject to the anticipated loan funding probability, or fallout factor.

*Commitments to Sell Loans and Securities.* We utilize forward commitments to hedge interest rate risk associated with loans held for sale and commitments to purchase loans. Fair value of these commitments is determined based upon the difference between the settlement values of the commitments and the quoted market values of the underlying loans and securities.

*Interest Rate Swaps, Swaptions, Caps, Floors, Flooridors and Futures.* Fair value for the caps, floors, flooridors, and put options is estimated based upon specific characteristics of the option being valued, such as the underlying index, strike rate, and time to expiration, along with quoted market levels of implied volatility for similar instruments. Interest rate futures are traded on the Chicago Board of Trade and market pricing is readily available and continuously quoted on systems such as Bloomberg. Fair value for swap and swaption agreements is estimated using discounted cash flow analyses based on expectations of rates over the life of the swap or swaption as implied by the forward swap curve.

**NOTE 16 — OPERATING EXPENSES**

A summary of operating expenses is as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Salaries and related .....	\$228,931	\$202,030	\$168,961
Premises and equipment .....	35,899	30,946	23,994
Loan purchase costs .....	29,916	23,349	17,014
Professional services .....	20,706	22,997	16,481
Data processing .....	36,236	20,500	16,069
Office .....	22,925	18,151	15,371
Advertising and promotion .....	26,803	13,705	10,575
Operations and sale of foreclosed assets .....	4,572	1,216	2,341
Other .....	18,617	11,164	7,395
Total operating expenses .....	<u>\$424,605</u>	<u>\$344,058</u>	<u>\$278,201</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**NOTE 17 — INCOME TAXES**

The income tax provision for the years ended December 31, 2003, 2002 and 2001 consisted of the following:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
<b>Current tax expense</b>			
Federal .....	\$ 38,800	\$65,121	\$14,174
State .....	9,981	9,902	5,717
Total current tax expense .....	<u>48,781</u>	<u>75,023</u>	<u>19,891</u>
<b>Deferred tax expense (benefit)</b>			
Federal .....	53,222	12,256	57,125
State .....	9,376	(512)	12,958
Net deferred tax expense .....	<u>62,598</u>	<u>11,744</u>	<u>70,083</u>
Total income tax expense .....	<u>\$111,379</u>	<u>\$86,767</u>	<u>\$89,974</u>

The tax effect of temporary differences that gave rise to significant portions of deferred tax assets and liabilities is presented below:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
<b>Deferred tax assets</b>		
Allowance for loan losses .....	\$ 19,111	\$ 17,020
State taxes .....	<u>11,341</u>	<u>5,472</u>
Total deferred tax assets .....	<u>30,452</u>	<u>22,492</u>
<b>Deferred tax liabilities</b>		
Mortgage securities and servicing rights .....	(161,113)	(92,634)
Other .....	<u>(5,487)</u>	<u>(8,064)</u>
Total deferred tax liabilities .....	<u>(166,600)</u>	<u>(100,698)</u>
Deferred tax liability, net .....	<u>\$ (136,148)</u>	<u>\$ (78,206)</u>

The effective income tax rate differed from the federal statutory rate for 2003 and 2002 as follows:

	Year Ended December 31,	
	2003	2002
Federal statutory rate .....	35.0%	35.0%
State income taxes, net of federal tax effect .....	4.5%	2.6%
Other items, net .....	<u>(0.1)%</u>	<u>0.1%</u>
Effective income tax rate .....	<u>39.4%</u>	<u>37.7%</u>

The reduction in the state income tax rate for 2002 was the result of state tax initiatives, including tax credits, which were realized in 2002 in connection with the Company's expansion and hiring of employees in certain California enterprise zones, as well as the Company's national expansion. The majority of these tax



# **INDYMAC BANCORP, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

benefits are non-recurring and thus, prospectively, our state income tax rate is expected to be at a higher level, consistent with the 2003 rate.

### **NOTE 18 — EARNINGS PER SHARE**

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation:

	<u>Earnings</u> <u>(Numerator)</u>	<u>Average Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
	(In thousands, except per share data)		
<b>December 31, 2003</b>			
Basic earnings .....	\$171,303	55,247	\$ 3.10
Effect of options and restricted stock .....	<u>—</u>	<u>1,679</u>	<u>(0.09)</u>
Diluted earnings .....	<u>\$171,303</u>	<u>56,926</u>	<u>\$ 3.01</u>
<b>December 31, 2002</b>			
Basic earnings .....	\$143,393	58,028	\$ 2.47
Effect of options and restricted stock .....	<u>—</u>	<u>1,564</u>	<u>(0.06)</u>
Diluted earnings .....	<u>\$143,393</u>	<u>59,592</u>	<u>\$ 2.41</u>

Options to purchase 4.7 million shares of common stock at an average exercise price of \$24.75 were outstanding, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

Additionally, 3,500,000 warrants issued in November of 2001, as part of the WIRES offering, each convertible into 1.5972 shares of our common stock at an effective exercise price of \$31.31 per share, were outstanding, but were not included in the computation of diluted earnings per share because the effects were antidilutive. The WIRES are described in more detail in Note 11.

### **NOTE 19 — ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The following table presents the ending balance in accumulated other comprehensive (loss) income for each component:

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In thousands)		
<b>Net (loss) gain on mortgage-backed securities available for sale</b>			
AAA-rated agency securities .....	\$ (191)	\$ (548)	\$ (46)
AAA-rated agency notes .....	(1,537)	—	—
AAA-rated non-agency securities .....	(4,393)	(770)	(3,876)
Other investment and non-investment grade securities .....	717	1,328	93
Residual securities .....	<u>—</u>	<u>—</u>	<u>3,362</u>
Net (loss) gain on mortgage-backed securities available for sale .....	(5,404)	10	(467)
Net unrealized (loss) gain on interest rate swaps used in cash flow hedges .....	<u>(21,050)</u>	<u>(17,757)</u>	<u>1,037</u>
Total .....	<u>\$ (26,454)</u>	<u>\$ (17,747)</u>	<u>\$ 570</u>



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the changes to other comprehensive (loss) income and the related tax effect for each component:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands)		
Net (loss) gain on mortgage-backed securities available for sale	\$(8,949)	\$ 6,287	\$ 3,291
Related tax benefit (expense)	3,535	(2,798)	(1,155)
Mortgage securities transferred to trading	—	(5,156)	—
Related tax benefit	—	2,143	—
Transition adjustment on interest rate swaps used in cash flow hedges	—	—	(4,298)
Related tax benefit	—	—	1,805
Net (loss) gain on interest rate swaps used in cash flow hedges	(5,443)	(32,126)	6,039
Related tax expense	2,150	13,333	(2,509)
Change to accumulated other comprehensive (loss) income	<u>\$(8,707)</u>	<u>\$(18,317)</u>	<u>\$ 3,173</u>

## NOTE 20 — COMMITMENTS AND CONTINGENCIES

### *Legal Matters*

On February 3, 2004, Washington Mutual Mortgage Securities Corporation filed a lawsuit against IndyMac in the Superior Court of the State of California. The lawsuit involves a contractual dispute about standard representations and warranties on single-family mortgage loans that were sold to PNC Mortgage Corporation during the period 1997 to 2000, prior to Washington Mutual's acquisition of PNC Mortgage Corporation in 2001. Washington Mutual alleges damages of approximately \$50 million, the bulk of which includes the principal balance of the loans in question, with the remainder of the amount consisting of interest and alleged losses. The loans in question represent less than 1% of the nearly \$6 billion in loans that were sold to PNC between 1997 and 2000. IndyMac maintains a reserve for potential losses related to its standard representations and warranties on loans sold and discusses such reserve in its financial statements filed with the SEC. Management believes that the resolution of this dispute will not have a material impact on the financial condition of IndyMac.

We are involved in other litigation arising from normal operations. In the opinion of management, none of these matters are likely to have a materially adverse effect on our results of operations or financial condition.

### *Commitments*

We enter into a number of commitments in the normal course of business. These commitments expose us to varying degrees of credit and market risk and are subject to the same credit and risk limitation reviews as



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

those recorded on the consolidated balance sheets. The following types of non-derivative commitments were outstanding at year end:

	December 31,	
	2003	2002
	(In thousands)	
<b>Investment portfolio commitments to:</b>		
Purchase loans pursuant to clean-up calls .....	\$ 203,529	\$219,185
Purchase servicing .....	—	4,119
<b>Undisbursed loan commitments:</b>		
Builder construction .....	474,028	809,960
Consumer construction .....	897,554	603,667
HELOC .....	477,719	459,537
<b>Letters of credit</b> .....	16,507	9,048

The Bank has notified the trustees of certain securitization trusts that we intend to exercise our clean-up call rights. A clean-up call right is an option we retain when we securitize our loans and retain the related servicing rights. This option allows us to purchase the remaining loans from the securitization trusts if the amount of outstanding loans falls to a specified level, generally 10% of the original securitized loan pool balance. At this level, the costs of servicing these loans exceeds the economic benefit of servicing the loans. At December 31, 2003, the loan purchase commitment under our clean-up call rights approximated \$203.5 million. The Bank exercises its clean-up call rights based on management's assessment of the economic benefits and costs associated with such transactions.

Additionally, during 2002, the Company entered into agreements with two mortgage insurance companies to reimburse those companies for any losses incurred on certain portfolios of single-family mortgage loans. The total single-family mortgage loans covered by these agreements was \$83.1 million and \$114.7 million as of December 31, 2003 and December 31, 2002, respectively. The Company's obligations under these agreements are accounted for in the secondary marketing reserve, which is included in other liabilities on the consolidated balance sheets. Total reimbursements of \$11.1 million were paid in 2003 related to these agreements.

**Leases**

We lease office facilities and equipment under lease agreements extending through 2010. Future minimum annual rental commitments under these non-cancelable operating leases, with initial or remaining terms of one year or more, are as follows for the years ended December 31:

<u>Year</u>	<u>Total</u>
	(In thousands)
2004 .....	\$11,291
2005 .....	10,721
2006 .....	9,565
2007 .....	8,396
2008 .....	7,283
Thereafter .....	7,269
Total .....	<u>\$54,525</u>

Included in the above table is an average annual payment of \$4.5 million, for a total of \$28.3 million through March 2010, payable to Countrywide Financial Corp., Inc. ("CFC") for our corporate headquarters



## INDYMAC BANCORP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

in Pasadena, California. At the time the lease was entered into, CFC was considered a related party to the Company.

Rental expense, net of sublease income, for all operating leases was \$17.0 million, \$15.0 million, and \$13.0 million, in 2003, 2002, and 2001, respectively.

#### NOTE 21 — RELATED PARTY LOANS

At December 31, 2003, we had \$1.3 million in notes receivable from our employees. There were no such loans outstanding with directors at that date. At December 31, 2002, we had \$2.9 million in notes receivable from our directors and employees. These loans have varying interest rates and terms and were secured by IndyMac stock or real estate.

#### NOTE 22 — REGULATORY REQUIREMENTS

Federal Reserve Board regulations require depository institutions to maintain certain deposit reserve balances. One of our subsidiaries, IndyMac Bank, is a depository institution required to maintain deposit reserves under the Federal Reserve Board regulations. At December 31, 2003, IndyMac Bank's deposit reserve balance of \$6.5 million, included with cash and cash equivalents on the consolidated balance sheets, met the required level.

IndyMac Bank's primary federal regulatory agency, the OTS, requires savings associations to satisfy three minimum capital ratio requirements: tangible capital, Tier 1 core (leverage) capital and risk-based capital. To meet general minimum adequately capitalized requirements, a savings association must maintain a tangible capital ratio of 1.5%, a Tier 1 core capital ratio of 3% for the most highly rated associations and 4% for others, and a risk-based capital ratio of 8%. Most associations are expected to maintain capital levels in excess of the above-mentioned capital levels. The OTS regulations also specify minimum requirements to be considered a "well-capitalized institution." A "well-capitalized" savings association must have a total risk-based capital ratio of 10% or greater and a leverage ratio of 5% or greater. Additionally, to qualify as a "well-capitalized institution," a savings association's Tier 1 risk-based capital must be equal to at least 6% of risk-weighted assets. In order not to be deemed "critically undercapitalized" and therefore subject to immediate remedial action, a savings association must maintain a tangible equity to tangible assets ratio of 2%. As a result of the SGV Bancorp, Inc. acquisition in July 2000, the OTS required that the Bank hold Tier 1 (core) capital of at least 8% of adjusted assets for three years following the consummation of the transaction and maintain a total risk-based capital position of at least 10% of risk-weighted assets. This particular condition expired on July 1, 2003, and the Bank has committed to the OTS to maintain the "well-capitalized" minimums. IndyMac Bank is currently "well-capitalized." However, the characterization of IndyMac Bank as "well-capitalized" by the OTS is for "prompt corrective action" purposes only and does not necessarily characterize IndyMac Bank's financial condition.

During 2001, the OTS issued guidance for subprime lending programs, which requires a lender to quantify the additional risks in its subprime lending activities and determine the appropriate amounts of allowances for loan losses and capital it needs to offset those risks. During the fourth quarter of 2003, the Company revised its approach to conform to this guidance and this revised approach was accepted by the OTS. Whereas in the past, subprime loans were determined based on increasing risk levels using secondary marketing and rating agency securitization models, the revised approach now generally classifies as subprime, all loans in a first lien position with a FICO score less than 620 and all loans in a second lien position with a FICO score less than 660. As of December 31, 2003, loans meeting this revised definition were supported by capital equal to two times that of similar prime assets. We report our subprime loan calculation in an addendum to the Thrift Financial Report that we file with the OTS. As of December 31, 2003, subprime loans held for sale totaled \$364.3 million as calculated for regulatory reporting purposes.



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the Bank's actual and required capital ratios and the minimum required capital ratios to be categorized as "well-capitalized" at December 31, 2003. Because not all institutions have uniformly implemented the new subprime guidance, it is possible that IndyMac's risk-based capital ratios will not be comparable to other institutions. The impact of the additional risk-weighting criteria had the effect of reducing IndyMac's risk-based capital by 66 basis points as noted in the table that follows.

	As Reported Pre-Subprime Risk-Weighting	Adjusted for Additional Subprime Risk-Weighting	Well- Capitalized Minimum
<b>Capital Ratios:</b>			
Tangible .....	7.56%	7.56%	2.00%
Tier 1 core .....	7.56%	7.56%	5.00%
Tier 1 risk-based .....	12.35%	11.73%	6.00%
Total risk-based .....	12.95%	12.29%	10.00%

The ratios above do not include \$105.1 million of unencumbered cash at IndyMac Bancorp that is available for contribution to the Bank's regulatory capital. Under the capital distribution regulations, a savings association that is a subsidiary of a savings and loan holding company must notify the OTS of an association capital distribution at least 30 days prior to the declaration of a dividend or the approval by the Board of Directors of the proposed capital distribution. The 30-day period provides the OTS an opportunity to object to the proposed distribution if it believes that the distribution would not be advisable.

An application to the OTS for specific approval to pay a dividend, rather than the notice procedure described above, is required if: (a) the total of all capital distributions made during a calendar year (including the proposed distribution) exceeds the sum of the institution's year-to-date net income and its retained income for the preceding two years; (b) the institution is not entitled under OTS regulations to "expedited treatment" (which is generally available to institutions the OTS regards as well run and adequately capitalized); (c) the institution would not be at least "adequately capitalized" following the proposed capital distribution; or, (d) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OTS.

In addition to OTS regulatory requirements we are subject to maintaining, the Bank is required to maintain compliance with various servicing covenants such as a minimum net worth requirement. Management believes the Bank was in compliance with all such covenants as of December 31, 2003 and 2002.

### NOTE 23 — BENEFIT PLANS

#### *Stock Incentive Plans*

We have two stock incentive plans, the 2002 Incentive Plan, as amended and restated, and the 2000 Stock Incentive Plan, as amended (collectively, the "Plans"), which provide for the granting of non-qualified stock options, incentive stock options, restricted stock awards, performance stock awards, stock bonuses and other awards to our employees (including officers and directors). Options and awards are granted at the average market price of our common stock on the date of grant, vest over varying periods beginning at least one year from the date of grant, and expire ten years from the date of grant. Unearned compensation on stock awards is being amortized to compensation expense over the service period, not exceeding five years, and is recorded as a reduction in shareholders' equity. In addition to the preceding activity pursuant to the Plans, 237,711 restricted stock awards were granted during 2003, primarily in lieu of commission cash bonuses, for a fair value of \$4.9 million and a weighted average share price of \$20.60. As of December 31, 2003, 280,574 nonvested restricted stock awards were outstanding and 23,518 restricted stock awards were forfeited during 2003. Compensation expense during 2003 related to these restricted stock awards totaled \$2.3 million.



# **INDYMAC BANCORP, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

As of December 31, 2003, options to purchase 4.7 million shares were exercisable. There were 1.0 million shares reserved for options and future award grants outstanding under the Plans as of December 31, 2003. Stock option transactions for the years ended December 31, 2003, 2002, and 2001, respectively, are summarized as follows:

	Number of Shares		
	2003	2002	2001
Options outstanding, beginning of year	11,159,592	8,983,388	7,201,023
Options granted	1,235,888	3,631,214	3,432,847
Options exercised	(1,770,428)	(710,325)	(1,535,714)
Options forfeited	(848,656)	(744,685)	(114,768)
Options outstanding, end of year	<u>9,776,396</u>	<u>11,159,592</u>	<u>8,983,388</u>
Options exercisable, end of year	<u>4,689,334</u>	<u>4,251,302</u>	<u>2,903,143</u>

	Weighted Average Exercise Price		
	2003	2002	2001
Options outstanding, beginning of year	\$18.95	\$16.92	\$12.11
Options granted	19.97	23.85	24.50
Options exercised	14.22	12.68	11.28
Options forfeited	24.00	24.23	17.10
Options outstanding, end of year	19.50	18.95	16.92
Options exercisable, end of year	17.62	14.63	12.12

The following summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at Period End	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
\$ 8.87 - \$11.83	2,362,954	5.3	\$10.96	1,762,954	\$10.88
\$11.84 - \$14.78	609,420	4.5	13.07	609,420	13.07
\$14.79 - \$17.74	104,767	6.5	16.93	104,767	16.93
\$17.75 - \$20.70	1,713,865	8.8	18.84	127,323	18.56
\$20.71 - \$23.65	269,438	8.9	22.39	76,031	21.93
\$23.66 - \$26.61	4,673,369	7.7	24.72	1,983,310	24.69
\$26.62 - \$29.67	<u>42,583</u>	7.7	27.47	<u>25,529</u>	27.55
\$ 8.87 - \$29.67	<u>9,776,396</u>	7.1	19.50	<u>4,689,334</u>	17.62

### **Pension Plan**

Through December 31, 2002, we provided a defined benefit pension plan (the "DBP Plan") to substantially all of our employees. Employees hired prior to January 1, 2003, with one or more years of service are entitled to annual pension benefits beginning at normal retirement age (65 years of age) equal to a formula approximating 0.9% of final average compensation multiplied by credited service (not in excess of 35 years), subject to a vesting requirement of five years of service. Our policy is to contribute the amount actuarially determined to be necessary to pay the benefits under the DBP Plan, and in no event to pay less than the



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

amount necessary to meet the minimum funding standards of Employee Retirement Income Security Act of 1974 ("ERISA"). Employees hired after December 31, 2002 are not eligible for the DBP Plan.

The changes in the DBP Plan assets during 2003 and 2002 consisted of actual return on assets of \$1.5 million and (\$521,000), respectively, and employer contributions of \$4.8 million and \$2.3 million, respectively, for a net fair value of \$12.7 million and \$6.3 million at December 31, 2003 and 2002, respectively.

Changes in the benefit obligation were as follows:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
Benefit obligation, beginning of year .....	\$12,167	\$ 6,645
Service cost .....	3,729	2,862
Interest cost .....	886	465
Benefits paid including expense .....	(27)	(25)
Actuarial loss .....	4,760	2,220
Benefit obligation, end of year .....	<u>\$21,515</u>	<u>\$12,167</u>

Reconciliations of funded status were as follows:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
Funded status .....	\$(8,807)	\$(5,834)
Unamortized prior service cost .....	714	769
Unrecognized net actuarial loss .....	<u>7,435</u>	<u>3,745</u>
Accrued pension cost .....	<u>\$ (658)</u>	<u>\$(1,320)</u>

Net periodic expense for the DBP Plan was as follows:

	Year Ended December 31,	
	2003	2002
	(In thousands)	
Service cost .....	\$3,729	\$2,862
Interest cost .....	886	465
Expected return on assets .....	(658)	(364)
Recognized actuarial loss .....	189	—
Amortization of prior service cost .....	56	56
Net periodic expense .....	<u>\$4,202</u>	<u>\$3,019</u>



**INDYMAC BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Weighted average assumptions used in accounting for the DBP Plan were as follows:

	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Assumed discount rate .....	6.75%	7.00%
Rate of compensation increase .....	4.00%	4.00%
Expected return on assets .....	7.50%	8.00%

The allocation for the defined benefit pension plan as of the measurement date, by asset category, is as follows:

	<u>Year Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Money market .....	—	1%
Bond and mortgage .....	35%	40%
Large cap stock index .....	65%	59%
Total .....	<u>100%</u>	<u>100%</u>

The investment goals and the allocation of the plan assets are determined jointly by the Employee Benefits Fiduciary Committee and Principal Life Insurance Company, recordkeeper and custodian of the DBP plan.

***Defined Contribution Plan***

We also offer a defined contribution plan (the “401(k) Plan”) covering substantially all of our employees. Employees with 90 days or more of service may contribute up to 16% of annual compensation to a maximum of \$12,000 of pre-tax annual compensation in 2003. We may determine, at our discretion, the amount of employer matching contributions to be made. We contributed a total of \$3.7 million, \$2.7 million, and \$1.8 million during the years ended December 31, 2003, 2002 and 2001, respectively. During each of the years, we matched 75% of the first 3% of the annual compensation contributed by the employee and 25% of the second 3% of the annual compensation contributed by the employee to the 401(k) plan. The employer matching contribution was made with IndyMac common stock in 2001, but, beginning January 1, 2002, the employer matching contribution was made in cash.

**NOTE 24 — SHAREHOLDER RIGHTS PLAN**

Our Board of Directors adopted a Shareholder Rights Plan (the “Rights Plan”) on October 17, 2001. The Board’s purpose in adopting the Rights Plan is to protect shareholder value in the event of an unsolicited offer to acquire us, particularly one that does not provide equitable treatment to all shareholders. In connection with the adoption of the Rights Plan, we declared a distribution of one right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Shares (“Preferred Shares”) for each outstanding share of common stock, payable to the shareholders of record on November 1, 2001. These rights automatically become associated with outstanding shares of common stock on our books, and individual shareholders need take no action with respect thereto. The rights will not become exercisable unless an investor acquires 15 percent or more of our common shares, or announces a tender offer that would result in the investor owning 15 percent or more of our common shares or makes certain regulatory filings seeking authority to acquire 15 percent or more of our common shares. If someone does acquire 15 percent or more of our common shares, or acquires us in a merger or other transaction, each right would entitle the holder, other than the investor triggering the rights and related persons, to purchase common shares, or shares of an entity that acquires us, at



# INDYMAC BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

half of the then current market price. The Board of Directors authorized and directed the issuance of one right with respect to each common share issued thereafter until the redemption date (as defined in the Rights Agreement). The terms of the rights are set forth in the Rights Agreement between us and the Bank of New York, as Rights Agent, dated as of October 17, 2001. The rights will expire at the close of business on October 17, 2011, unless we redeem them earlier. The Preferred Shares have a par value of \$0.01 per share, are junior to all other series of our preferred shares, and are entitled to quarterly dividends at a rate equal to the dividends paid, if any, on 100 common shares. Each one one-hundredth of a Preferred Share entitles the holder to one vote on matters submitted to a vote of our shareholders. The Rights Plan can be terminated or amended by the Board at any time.

### NOTE 25 — QUARTERLY FINANCIAL DATA — UNAUDITED

Selected quarterly financial data follows for the years ended December 31, 2003 and 2002:

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(Dollars in thousands, except per share data)			
<b>2003</b>				
Interest income .....	\$128,196	\$132,477	\$147,339	\$167,829
Interest expense .....	65,172	64,962	64,886	69,884
Net interest income .....	63,024	67,515	82,453	97,945
Provision for loan losses .....	3,100	6,900	6,200	3,500
Gain on sale of loans and securities, net ..	76,873	92,888	112,851	73,846
Net earnings .....	36,917	41,369	49,704	43,313
Earnings per share(1):				
Basic .....	\$ 0.67	\$ 0.75	\$ 0.90	\$ 0.78
Diluted .....	0.66	0.73	0.87	0.75
<b>2002</b>				
Interest income .....	\$123,682	\$113,560	\$118,174	\$121,688
Interest expense .....	69,928	64,357	67,799	65,732
Net interest income .....	53,754	49,203	50,375	55,956
Provision for loan losses .....	4,186	3,568	2,700	5,700
Gain on sale of loans and securities, net ..	70,478	73,981	84,953	75,827
Net earnings .....	36,019	34,574	37,204	35,596
Earnings per share(1):				
Basic .....	\$ 0.60	\$ 0.58	\$ 0.65	\$ 0.65
Diluted .....	0.58	0.56	0.64	0.63

(1) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

### NOTE 26 — SUBSEQUENT EVENT — UNAUDITED

On January 29th, 2004, IndyMac's Board of Directors declared a cash dividend of \$0.25 per share for the first quarter of 2004, up 25% relative to the fourth quarter of 2003 and up 150% over the dividend in the year ago period when the Company reinitiated dividend payments. The cash dividend is payable March 11, 2004 to shareholders of record on February 12, 2004.



## **Directors**

### **IndyMac Bancorp & IndyMac Bank**

Michael W. Perry  
*Chairman of the Board and Chief Executive Officer*

James R. Ukropina, Esq.<sup>1, 3, 4, 6, 7</sup>  
*Presiding Director*  
*Chief Executive Officer*  
*Directions, LLC*

Louis E. Caldera<sup>3, 6</sup>  
*President, University of New Mexico*

Lyle E. Gramley<sup>2, 6</sup>  
*Senior Economic Adviser*  
*Schwab Washington Research Group*  
*Washington, D.C.*

Hugh M. Grant<sup>1, 4, 6, 7</sup>  
*Retired Vice Chairman*  
*Ernst & Young, LLP*

Patrick C. Haden<sup>4, 6</sup>  
*General Partner*  
*Riordan, Lewis & Haden*  
*Equity Investments*

Terrance G. Hodel<sup>2, 5, 6</sup>  
*Independent Director*

Robert L. Hunt II<sup>1, 2, 3, 6, 7</sup>  
*Independent Director*

### **IndyMac Bank**

Lydia H. Kennard<sup>5, 6</sup>  
*Independent Director*

U.S. Senator John Seymour (ret.)<sup>2, 5, 6</sup>  
*Chief Executive Officer*  
*Southern California Housing Development Corporation*

## **Directors Emeritus**

Thomas J. Kearns

Frederick J. Napolitano

## **Board Committees & Designations**

- 1 Audit Committee
- 2 Asset and Liability Committee
- 3 Management Development and Compensation Committee
- 4 Corporate Nominating and Governance Committee
- 5 Community Lending, Compliance, Process and Technology Committee
- 6 Independent Director
- 7 Audit Committee Financial Expert

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Scott Keys  
*Executive Vice President*  
*Chief Financial Officer*

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*Executive Vice President*  
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*Executive Vice President*  
*Corporate Strategy and Marketing*

Raymond D. Matsumoto  
*Executive Vice President*  
*Enterprise Process and Technology*

Roger H. Molvar  
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*IndyMac Consumer Bank*

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*Chief Administrative Officer*

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*Chief Executive Officer*  
*Home Equity Division*

John D. Olinski  
*Executive Vice President*  
*Chief Investment Officer*

Thomas H. Potts  
*Executive Vice President*  
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Richard H. Wohl  
*Chief Executive Officer*  
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James A. Fraser  
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Edward L. Goddin  
Carmella L. Grahn  
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Scott VanDellen  
Jules Vogel  
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## **Senior Vice Presidents**

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David M. Balsam  
William B. Barber

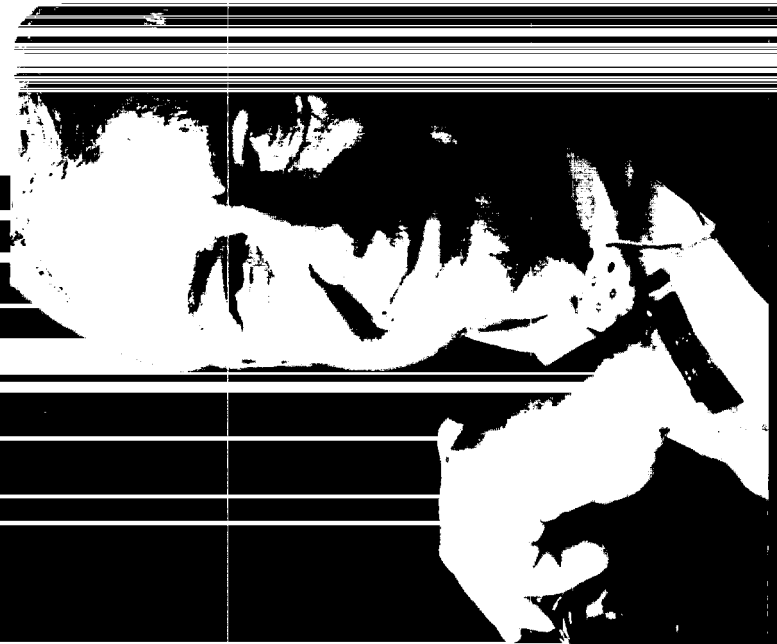


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DAVID S. LOEB  
1924-2003



WISDOM. EXPERIENCE. VISION.  
YOU WILL BE MISSED.

David, we will miss your vision, intelligence and savvy adlage, but we will never forget you and what we learned from you. We will honor your memory by continuously striving to make IndyMac one of the most ethical, profitable and innovative thrifts/mortgage bankers in the business.

1969 Co-founder Countrywide Credit Industries, Inc.  
new Countrywide Financial Corporation  
President and Chairman, Countrywide

1985 Co-founder Countrywide Mortgage Investments  
now IndyMac Bank, Inc.  
Chairman, IndyMac Bank, Inc.

1969

1969 - 2000

1985

1985 - 2003





THINK TOMORROW.  
THINK INDYMAC.

**M** IndyMac Bank.

155 North Lake Avenue  
Pasadena, California 91101